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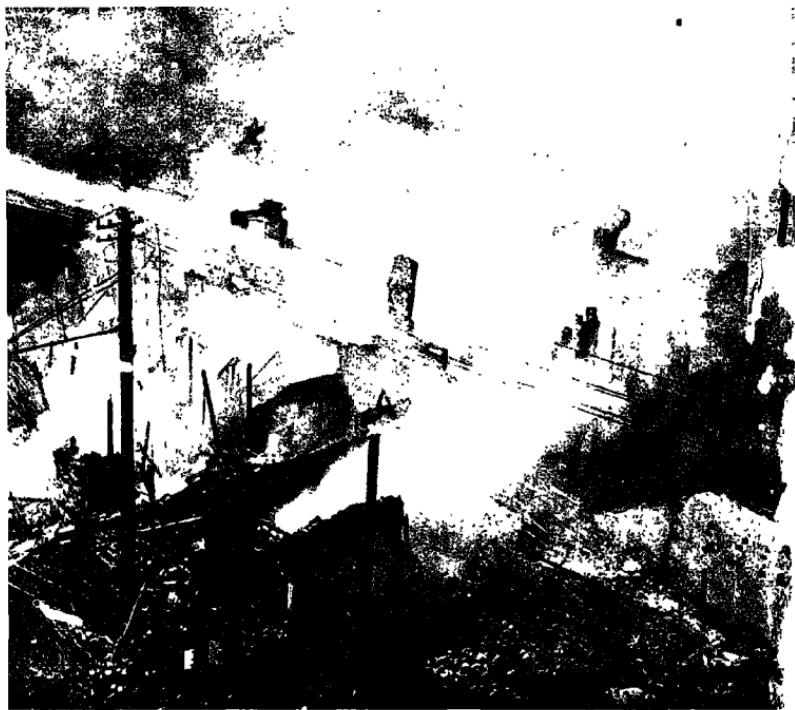
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JAPAN'S
ECONOMIC
OFFENSIVE
IN
CHINA

by Lowe Chuan-Hua
**FACING LABOUR ISSUES
IN CHINA**

edited by Lowe Chuan-Hua
**SYMPOSIUM ON JAPAN'S
UNDECLARED WAR IN
SHANGHAI**



"Newsreel" H.

The "new order in East Asia" that is being created by Japan.

JAPAN'S ECONOMIC OFFENSIVE IN CHINA)

by

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INTRODUCTION

By PROFESSOR PAUL H. DOUGLAS

PEOPLE are slowly awakening to the real intentions of Japan towards China. The Japanese government does not merely want to conquer China politically ; it also wants to conquer it economically. The plan of the Japanese has been made abundantly clear in Manchuria during the last eight years and in the provinces which she has conquered since 1937. Not only will the Chinese people be terrorized as the Kovars have been over the course of thirty years, but all manufacturing, trade and finance will pass into the hands of the conquerors. This will mean the almost complete extinction of European and American exports into China, which will instead be reserved almost exclusively for Japanese goods. A Japanese victory in China would also probably be followed by the taking over of the Dutch East Indies either by Japan or Germany, while French Indo-China, the Straits Settlements, Siam, etc., would sooner or later follow.

There would be a large degree of poetic justice in all this were the expulsion of the Europeans to be followed by native independence. But for it to happen at Japanese hands would worsen rather than improve the lot of the native peoples.

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So far as America is concerned, a Japanese victory would be devastating to her trade and position. The Philippine Islands would shortly drift into the Japanese sphere of influence and probably would be actually taken over. It is high time therefore that we reconsidered our position with respect to the Japanese attack on China. Thus far we have given our sympathy to China but have furnished our scrap-iron, copper, and supplies to Japan. With this aid Japan has been able to conquer a large part of China. Without it, she might have failed. It is time we stopped giving our tears to China and our aid to Japan, and in the cause not only of peace but also self-interest shut off the supplies upon which Japan depends. It is to be hoped that the British governing classes have been sufficiently chastened by their experience of the past year so that they will also break with their former allies whom in previous years they have actually encouraged. Mr. Lowe Chuan-Hua's little book should help measurably towards these ends, since it is written both soberly, and accurately, and from a full experience.

UNIVERSITY OF CHICAGO

FOREWORD

WHEN the Japanese resumed their military operations in North China in July, 1937, they informed the world that they meant only to "wipe out Bolshevism from the Far East", "chastise the Chiang Kai-shek government", and "eradicate the anti-Japanese activities in China". For a while these high-sounding pretexts were accepted by certain foreign nationals in China, particularly the die-hard elements in Shanghai who had hoped that a Japanese victory would check the rise of Chinese nationalism and bring about peace and order in this country, thereby enhancing the opportunities for foreign trade and industry.

But after nearly two years of brutal warfare and having now seized the leading seaports and lines of communication in the Far East, Japan no longer bothers to conceal her real motives but frankly suggests that the Western Powers should acknowledge her "new position in East Asia". What do the Japanese mean by this so-called new position?

First, it would mean the ultimate economic conquest of China. Simultaneous with her military campaign, Japan has been conducting an organized economic war on China. The results of this onslaught, though not always successful or beneficial to Japan's own interests, are rapidly emerging on the Far Eastern horizon and, if allowed to gather

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momentum, would eventually reduce the occupied regions into a state of complete servitude. Ambitious plans of economic exploitation in China have long been prepared by Tokyo's "brain trust", and these are being promoted in the Japanese-controlled areas without any consideration for China's welfare or for Western interests.

However, despite innumerable hardships and reverses, China has refused to yield, and present indications are that she will not give up the struggle. On the contrary, the Chinese government and people alike are showing an amazing ability to repair and improve their economic defence lines. It may be interesting to see how that economic defence is being reshaped and strengthened.

Secondly, Japan's "new position" is directed at the gradual eviction of all non-Japanese interests and enterprises in the Orient. In the Japanese-controlled districts today foreign treaty rights are openly violated and foreign properties, along with those belonging to the Chinese, are commandeered and frequently destroyed. Foreign business activities, including those conducted by Germans and Italians, are being systematically strangled with the knowledge and even the backing of the Japanese military and naval authorities. All of which indicates that the Japanese war-lords are determined to establish their economic supremacy in the Far East.

But while, from a military standpoint, Japan has been gaining ground in China (having more or less made her way into one-third of China proper), she has been losing heavily on the economic front. This loss is becoming increasingly manifest. It is not impertinent, therefore, to

FOREWORD

raise the question of Japan's ability to pay for her endless military adventures on the Asiatic continent. How long can Japan finance her programme of imperialistic expansion, and how long can her people stand the present economic strain ? What gains can she actually obtain from her costly military operations in China, and would such gains, if any, ever become attractive enough to justify her stupendous expenditures during the last few years ? Can she really make the Chinese in the occupied areas co-operate with her to such an extent as to be able to convert her risks and liabilities into profitable and permanent investments ? These questions, though unanswerable for the time being, are worth considering and must be faced eventually.

Just as her complacent war-lords have miscalculated the Chinese power of resistance, so too Japan's financial barons and industrial magnates have failed to take into account a number of economic factors which are now beginning to act as a virtual boomerang. It is true that Japan has taken some of the richest Chinese cities, but, due to the "scorched earth" policy consistently enforced by the Chinese military command, these have become empty shells. Wisely have the Chinese prevented the fruits of their toil from falling into their enemy's hands and from being used to swell the Japanese war-chest. Thus the much talked about programme of "rehabilitating" China and developing her into a "paradise of the Orient"—an idea which many Japanese cheerfully accepted as part of their "holy mission" during the early days of the war—is beginning to appear too heavy a responsibility for them to shoulder.

It is for the purpose of exposing Japan's motives and

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designs on this economic front, pointing out the dangers of her policy of ousting Western interests and influence from the Orient, and reviewing some of her own mistakes and losses in the war that the writer has ventured to prepare this monograph, which, under present circumstances, cannot but represent an incomplete picture.

LOWE CHUAN-HUA

HONGKONG,

May 1, 1939

“THE future of China is one of the great problems of the ages. But one thing is clear—she must develop in her own way. She cannot be dominated or driven by outside force into an alien or undesired form of evolution. Hers is the most persistent national culture in the world. Forty centuries have demonstrated that fact. Also the essentially peaceful character of her domestic and internal culture is now the main stabilizing factor of Asia. Its loss would be a blow which would directly affect the peace of her neighbours, including America. It would be a very short-sighted policy if that loss should come through a disregard of its treaty obligations by the American government. Those Americans who think that all that is necessary to solve the Manchurian problem is for the United States and Japan to patch up a *modus vivendi* which will be agreeable to Japan, forget this far more important underlying problem of China. At the present moment no agreement or arrangement which would be consented to by Japan would be other than destructive and repugnant to China”—HENRY L. STIMSON in *The Far Eastern Crisis*.

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Chapter I

JAPAN'S ECONOMIC MOTIVES IN CHINA

IN the annals of the Far East perhaps no phrase has appeared so often as the "Open Door". Enunciated by the American statesman and diplomat, John Hay, the Open Door doctrine has served as the keystone of Far Eastern international relations and tranquillity during the last forty years. Not only China (though she has been the principal beneficiary) but all other Powers having interests in the Orient have profited by it.¹ Its basic conception has been incorporated into almost all of the modern treaties concerning China, just as it has been adopted as a guiding principle in numerous commercial agreements concluded between the leading Pacific Powers. Designed to avert the dangers of international rivalry and to ensure peace and prosperity in the Orient, the Open Door doctrine has been found no less desirable and advantageous by many far-sighted Japanese.

Thus in 1908 in the Notes exchanged between Mr. Elihu

¹ It may be interesting to note that Japan and Italy assented to Mr. John Hay's circular note of September 6, 1899, without reservation.

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Root, then United States secretary of state, and Baron Kogoro Takahira, former Japanese ambassador in Washington, their respective governments reiterated their adherence to the Open Door. In these Notes, now generally known as the Root-Takahira Agreement, Japan and the United States agreed : (1) to encourage the free and peaceful development of their commerce on the Pacific Ocean ; (2) to maintain the existing *status quo* in the said region and to defend the principle of equal opportunity for commerce and industry in China ; (3) to respect the territorial possessions belonging to each other ; (4) to preserve the common interests of all Powers in China by supporting by pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry for all nationals ; and (5) to consult with each other should any event occur threatening the *status quo* or the principle of equal opportunity in China.¹

Several times since the signing of the Root-Takahira Agreement, notably in the Washington conference of 1921-1922, both Japan and the United States (together with other Pacific Powers) have given categorical assurances that the principles of equality of opportunity and the integrity of China will be observed and maintained.

Unfortunately, in the history of Japan's foreign relations, often against the wishes of some of her own statesmen, there have been repeated instances of deliberate violation of this Open Door doctrine. Though professing her adherence to the principle of equal opportunity, Japan has always been

¹ Morse and McNair, *Readings in the Modern History of China* (Commercial Press, Ltd., Shanghai, 1927), p. 829.

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quick to take advantage of international crises in order to advance herself to a position of paramountcy in the Far East. This was demonstrated very clearly during the European War when she made her so-called "Twenty-one Demands" on China. Perhaps the best-known indication of Japan's urge towards this position of supremacy is found in the so-called Tanaka Memorial submitted to the Japanese Emperor in July, 1927. Although the Japanese have never admitted the authenticity of this significant document, their actions during the past decade have been strangely identical with what Baron Tanaka laid down. In this Memorial the author, then premier of Japan, did not conceal the importance and need of getting control of "the entire wealth of China" as a means of achieving supremacy in the Pacific area.

CONTROL OF CHINA'S RAW MATERIALS

It is a well-known fact that Japan, poor in natural resources but rich in dreams of military conquest, has long manifested an avaricious interest in China's raw materials, especially cotton, wool, coal, antimony, iron and other minerals. China as a market for Japanese goods has great potentialities indeed, but China as a source of raw materials—the possession of which would enable Japan to translate her ambitious schemes of conquest into realities—is much too valuable to be left unexploited. A noted British economist once remarked that there are at least twenty-five kinds of raw materials indispensable to the existence of a modern nation. Of these, Japan is self-sufficient in only a few.

As to Japan's deficiency in raw materials and her continual desire for their acquisition, Professor J. E. Orchard has

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given such an illuminating account in *Empire in the East*¹ that we deem it worth while to quote at full length :

“ Japan is a poor country. Not only is the area of agricultural land limited, but the islands possess few of the essential raw materials for manufacturing that have contributed to the growth of such nations as Great Britain, Germany and the United States. With the shift to the machine, power becomes all-important, and despite the development of water power and the use of petroleum, power still means coal. Japan has some coal. The reserves remaining in the earth are estimated at about 7.5 billion tons. At first glance, this total would seem to be an ample supply, but for so large a population it is quite inadequate. In *per capita* reserves Japan ranks far below the industrial countries of the West. Even at the present very low rate of consumption, Japan’s reserves will be exhausted in about forty years. Not only is the supply deficient, but the coal is expensive to mine, since it lies deep and in thin seams, and very little of it will make a satisfactory coke for the blast furnace. If industrialization is to progress in Japan to anything like the degree it has in Western countries, either coal must be imported or a new source of power must be discovered.

“ Some petroleum is produced along the west coast of Honshu, the main island of Japan. The annual output is small, and in 1932 equalled for the entire twelve months only about 70 per cent of the yield of the petroleum fields of the United States for a single day. The domestic production does not meet the demand, and in recent years more than 80 per cent of the petroleum consumption has been imported. There is little expectation that additional fields will be discovered in the Japanese islands, since the geological formations are known to be in general unfavourable

¹ *Empire in the East*, edited by Joseph Barnes. Kegan Paul, Trench, Trubner & Co., London, 1934.

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to the occurrence of petroleum. In view of the greatly increased use of petroleum in merchant and naval vessels and in airplanes and motor vehicles, the dependence upon foreign sources has become a matter of grave concern.

"Iron is closely associated with power as a fundamental basis of modern industry. In the days of seclusion there were hundreds of small smelters and forges scattered all over Japan, supplying the local need for knives, cooking utensils and weapons. With the opening of the country, this primitive industry was one of the first to disappear, for it could not compete with the imported product of modern blast furnaces and steel mills. The number of ore deposits and their widespread distribution were not evidences of a wealth in iron, since few of them, either because of small reserves or because of the poor quality of the ore, were suitable for large-scale exploitation. There are only two iron-ore deposits that can be worked under conditions of the present day. The total reserves of the country are small and have been estimated at about 80 million tons with perhaps one half of the ore unsuitable for modern furnaces. Even under the pressure of the World War, the maximum annual production was less than 400,000 tons, and usually it is around 200,000 tons. In the United States, the annual consumption of iron ore for the years preceding the abnormally low years of 1932 ranged from 30 to 75 million tons. The reserves of Japan are quite inadequate for the development of an iron and steel industry. If it were necessary to support the iron and steel requirements of the country entirely from domestic deposits, all of the Japanese iron ore, both high and low grade, would be consumed in less than twenty-five years. The progress of the industry in the past has been based mainly upon imported ores. Any future expansion must depend upon imports to an even greater degree.

"The territory added to the Empire during the modern period has not remedied significantly the deficiencies of

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Japan proper in raw materials. Some iron ore is obtained in Korea. It is of better quality than the ore of Japan, but the reserves are even more limited in quantity. Korea also has some deposits of anthracite coal of importance to the Japanese navy as a smokeless fuel. The total reserves are quite inadequate, however, for the requirements of Korea alone, and in recent years the imports of coal have equalled the Korean output.

"As the industrial limitations of Japan have been more fully appreciated in recent years, the search for resources has become a major incentive in the expansion into Manchuria, although political and strategic considerations undoubtedly were predominant in the earlier years. Manchuria has come to be regarded as both the political and economic life-line of Japan."

But in attempting to control Chinese resources, Japan is apparently heedless of the fact that these are equally needed by some 400,000,000 people in China. While Japanese propagandists have frequently advanced economic desperation as an excuse for territorial aggrandizement (which camouflage is given no little credence amongst the isolationist elements in the West), it may be well to remember that China, many parts of which are poorer and even more densely populated than Japan, is in no less urgent need of the great bulk of her own natural wealth. Indeed, the development of modern industries in China within recent years has made her increasingly dependent upon the very resources which Japan is now trying to seize.

In international conferences on Far Eastern problems as well as in the writings of many Japanese publicists, one is often told that Japan must have additional room to take care

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of her ever-increasing population. While it is admitted that Japan is suffering from an unusually great density of population, she is nevertheless in a much better position than England, Belgium and Holland. Hokkaido and a number of the lesser islands belonging to the Japanese Empire can be further developed so as to accommodate many more million people than they now hold. Again, during the last 44 years, Japan has added several hundred thousand square miles of land to her map, *i.e.* the Liuchoo Islands, Formosa, Korea, the Mandated Islands in the Pacific, and now "Manchukuo". Yet these regions, considered as suitable for human habitation as any other section on earth, have absorbed but one to two million Japanese emigrants and have served as outlets for only a small fraction of the total of annual population increases in Japan proper. According to the *Japan Year Book* for 1939, Japan's overseas population in 1936 was only 1,401,671, the overwhelming majority being in China and Manchuria.¹

Generally speaking, people move into areas where they can find better opportunities, greater security and freedom. It is chiefly due to these causes, rather than military control or political domination, that some 10,000,000 Chinese have found their way into foreign lands. And they are thriving in every corner of the world without the protection of Chinese gunboats ! On the other hand, the Japanese are

¹ In this connection it is interesting to note that the total amount of bonds which Japan has already issued for the war in China—Yen 7,000,000,000—would have been sufficient to support her annual burden of 900,000 new mouths for at least 38 years at the moderate *per capita* expenditure of Yen 200 a year.

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not good colonizers and, despite the various inducements given by their government, they have hardly emigrated into their colonies and territorial possessions on a scale sufficiently large to help solve the problem of over-population. Evidently the section of the Japanese people who need urgent relief are the peasants, but, strangely enough, among the Japanese who have moved into Korea, Formosa and Manchuria during the last few decades, the largest groups are not the peasants but government employees, business men and the white-collar class—those associated with Japanese colonial administrations and overseas enterprises. Therefore one is compelled to assume that the Japanese are using the argument of population pressure only to cover up their designs of territorial conquest.

Some Japanese allege that their need and struggle for raw materials is motivated by a desire to develop their large-scale industries, which, they claim, give the only solution to their problem of ever-increasing population. While it is true that these major industries provide livelihood for a large part of the Japanese people, they are doing so merely on a subsistence level. Practically all important business enterprises and heavy industries in Japan, including the munition and armament industries, are owned and controlled by a few powerful family concerns such as the Mitsuis, the Mitsubishiis, the Sumitonos, the Yasudas and lately the Shinko groups. These financial barons and industrial magnates, in collaboration with certain army cliques, hold in their hands the destiny of Japan's economic life. Control of raw materials, whether it be the iron ores in Manchuria, the oil fields in Borneo or the fishery rights in Sakhalin, has

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largely benefited the big capitalists, financiers and industrialists. It has not helped, to any measurable extent, in elevating the standard of living of the working people. As a matter of fact, it has been the consistent policy of the ruling class in Japan to devote the fruits of industrialization and economic development to the expansion of their military power. Not only the masses in Japan, who are already over-taxed, but also the peasants, the small traders and the ignorant workers in Manchuria, Mongolia, Korea, Formosa and China must be drafted to help shoulder the burden of Japan's increasing military and naval expenditures. Enjoying as she does geographical propinquity to China, Japan is actually in a better position than any Western Power for exploiting Chinese resources, and in normal trade relations she need entertain no fear of any shortage of raw materials to keep the wheels of her industries going. This fear comes only when she has other than peaceful intentions. Is it any wonder, then, that her repeated attempts to seize China's sources of wealth have been interpreted as deliberate preparations for territorial aggrandizement? Indeed, as Baron Tanaka stated in his Memorial, the real purpose behind Japan's efforts to secure control of China's natural resources lies in her ambition to attain political and economic supremacy in Asia. "Manchuria and Mongolia", says the Tanaka Memorial, "are our key positions. After conquering Manchuria and Mongolia, we can seize the wealth of the whole of China. After conquering China, we shall be able to subjugate India, the South Seas, Asia Minor, Central Asia and finally Europe." These plans may sound fantastic, but they are being steadily carried out.

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PREDOMINANCE IN THE CHINA MARKET

Japan's second motive is to gain a position of paramountcy in the China market. While time and again Japanese officials and spokesmen have promised to observe the Open Door policy, their actions have always been organized with a view to crushing foreign interests in China and gradually closing the trade door in the Orient. To Japanese industrialists China is more often regarded as a market for their goods than as an independent political entity. The methods which they have been using in building up this position of paramountcy in Manchuria and North China since the Mukden Incident of 1931 are open secrets and need no elaboration here. The same methods of discrimination against Western enterprises are being applied in the newly occupied districts in East, Central and South China. And, if the frequent protests from the Western Powers have made any impression on the Japanese at all, they have only made the latter more vigorous and relentless in these discriminatory activities.

How seriously Japan's high-handed measures in China are affecting foreign trade and investments, and what grave repercussions these measures are likely to have upon the whole trend of political and economic events in the Orient, are questions of immediate concern to all of the Powers having treaty relations with China. These questions must be faced and be faced promptly, unless the Western countries are prepared to alter completely their traditional policies in the Far East.

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CHINA AS A FIELD FOR JAPANESE INVESTMENTS

Japan further wants to turn China into an exclusive field for Japanese investments. In this sphere, she has chosen the development of a network of monopolies as her chief method. Just as a few wealthy family groups, with the acquiescence and co-operation of the army leaders, have gained control of all public utilities, communication and transportation facilities, banks and heavy industries in Korea and Manchuria, so too their advance agents are now trying to repeat the same story in China. Grandiose schemes for developing the occupied areas are being widely discussed among Japanese officials and industrial magnates who, in compensation for their hardships in Japan, have been promised a "free hand in China". As reported in the Japanese press, the Japanese government has decided not to hamper the entry of large Japanese capitalists into China as it once did in Manchuria. Hence the leading Japanese firms, such as the Mitsui and the Mitsubishi, are expecting to extend greatly their operations in China, especially in mining and heavy industries. In fact, a representative of one of these firms declared in Shanghai that "the present plans for Japanese enterprises in China are larger than anyone believes".

Under the auspices of the Japanese cabinet, a centralized organ for directing political, economic and cultural affairs in China has been created in Tokyo, namely, the Central Board of East Asiatic Affairs (sometimes called the Asia Development Board). Under the supervision of this board two big corporations—the North China Development Company and the Central China Development Company

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—have already been formed for purposes of economic exploitation in China. These holding companies, destined to perform a far greater service to Japan than the East India Company did to England, will together require an estimated capitalization of Yen 1,700,000,000 for their five-year programmes—the details of which are given in a subsequent chapter. It is their plan ultimately to control all important businesses and industries in China through the promotion of affiliated and subsidiary companies. Already foreign firms in the Japanese-controlled regions are experiencing serious handicaps in pursuing their normal trade activities, and if these obstacles, deliberately set up by the Japanese and their puppet régimes, are allowed to function for any length of time, they will undoubtedly enable the Japanese to replace all foreign interests in China. While it is true that Japan, now suffering from various war “economies”, cannot supply the needed capital to carry out her ambitious programme of economic exploitation in China, she nevertheless hopes to be able to “make the Occidental nations appreciate her new position in East Asia” and to trick some of them to come to her rescue. Gigantic propaganda projects, often labelled as goodwill or cultural missions, are being launched in New York and London with a view to inducing certain bankers and financiers to help Japan rebuild China.

The closing of the Yangtze river to all non-Japanese ships, which has recently drawn the most vigorous protests from the United States State Department and the British Foreign Office, is but one of many eloquent indications showing how feverishly Japan is trying to monopolize

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various trade channels in China. In North China the wool industry has already become a virtual Japanese monopoly, thus helping to reduce Japan's dependence upon Australia and New Zealand as the main sources of supply ; while the tobacco industry is being ruthlessly converted into another monopoly by the Japanese Toa Tobacco Company and the Manchuria Tobacco Company, which are to undertake the manufacturing of cigarettes on a large scale in Tientsin, Chingwantao and Nanking. In Tsingtao a Japanese firm has been inaugurated to take charge of all the harbour and wharf facilities, and has thus put all foreign shipping at its mercy. Scores of other development and rehabilitation projects have been mapped out (as we shall presently see) and are being promoted in East, Central and South China. Given time, and if unchallenged by the Western Powers, these "blue-print" schemes may eventually succeed in crowding out most of the foreign enterprises and interests in China and thereby actually enable our "economic infants" to become masters in the house of Asia.

ARRESTING CHINA'S INDUSTRIAL PROGRESS

The remarkable progress in economic reconstruction made by China during the ten years prior to the outbreak of hostilities has been regarded with envy by many Japanese politicians and economists. The growing influence of the National Government all over China, together with the achievements which that government has made in education, financial reorganization, industrial development and national defence, has caused no small anxiety amongst

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the Japanese militarists, whose ambition to build a great Asiatic empire can be carried out only if China remains a disunited and submissive neighbour. To Japanese business men the modernization of Chinese industries is a no less discomforting phenomenon, for, in spite of continuous Japanese obstruction, Chinese industries, particularly the light and small-scale industries, had developed to such an extent that at the outbreak of the war they had begun to replace many Japanese goods in the Oriental market. The winning of tariff autonomy about ten years ago also promoted the expansion of native industries in China. What these infant industries had failed to attain for years they rapidly achieved after receiving tariff protection. This has indeed worked havoc to many industries in Japan, especially those concerned with manufacturing cotton piece goods, silk products, electric bulbs and supplies, toys and novelties, celluloid articles, bicycles, tools and light machinery. Perhaps in this industrial rivalry may be found the explanation as to why so many Chinese factories and workshops have been systematically looted, burned and destroyed during the last two years. The war has indeed given the Japanese the best opportunity they could ever expect to arrest China's industrial development and to destroy whatever significant industries she has been able to develop during the last few decades. In a country industrially ruined Japanese capitalists can feel safe from competition for several generations.

CONTROL AND UTILIZATION OF CHINA'S MAN-POWER

It is often said that China's greatest asset lies in her man-power. A nation of 400,000,000 people can wield

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a tremendous influence upon the course of world events. Nobody realizes this truism better than Japan. If she can get control of China's teeming millions she can utilize this immense man-power to make all the necessary preparations, for which her war-lords have been clamouring, for an eventual test of strength with Soviet Russia, the United States and Great Britain. In fact, such an idea has been expressed repeatedly in the pamphlets issued by the Japanese Ministry of War. In the present campaign in China the Japanese militarists are using hundreds of Formosans and Koreans, chiefly in intelligence work. Chinese soldiers who are taken prisoners are later employed in military transport work, and thousands of Chinese civilians who have been unable to evacuate before the advent of enemy troops are requisitioned to build motor roads, repair bridges, dig trenches, carry military supplies and perform other war services.

But it is the Japanese policy to utilize Chinese man-power for a greater and more productive objective than this emergency service. A conquered China would supply cheap and docile labour to Japanese factories, dockyards, mines and workshops. The deplorable "dormitory system" of hiring factory hands, already notorious in Japanese cotton mills in Shanghai and Tsingtao, would most likely be extended, in modified form, to other cities and industries in China, thus keeping the Chinese working class in a state of constant submission. In short, the Chinese people will be expected to do all the sweating while the Japanese will reap all the profits from their China investments.

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The Japanese, furthermore, will try to carry out their policy of "ruling China through the Chinese", a familiar phrase in the guidebooks of Doihara and Company. Countless poverty-stricken and uneducated Chinese in the occupied areas can be called up to serve Japanese interests, and, through bribery and intimidation, a number of *ex-tuchuns* and long-whiskered *mandarins* can perhaps be induced to join as puppet officials. It is even planned to organize and train new Chinese armies under strict Japanese supervision to "pacify" the rural districts, just as is done in Manchuria. Who can deny that with the persistent use of high-power propaganda and regimented education, these armies, led by Japanese officers and supplied with Japanese gold, may some day be conveniently utilized in connection with Japan's plan of tackling her more formidable rivals in the Orient?

In cities occupied by Japanese troops such slogans as "Britain and America are China's real enemies", "Japan is fighting Chiang Kai-shek, not China", "Buy Japanese goods" and "Boycott the British" have already appeared, with the obvious aim of winning Chinese goodwill and support for an ultimate war against other Pacific Powers. Intelligent Chinese, of course, will refuse to be fooled by such naïve Japanese propaganda, but if the poor and ignorant masses in the Japanese-controlled regions are kept out of touch with the outside world for any extended period and are compelled by unfortunate circumstances to earn their daily bread through subordination to Japanese wishes, the consequence is bound to be anything but beneficial to the real interests of China and the Western nations.

Chapter II

DEVELOPMENTS ON THE ECONOMIC FRONT, 1937-1939

SINCE the launching of their military operations in July, 1937, the Japanese have been making an intensified, though not wholly successful, economic war on China. On this invisible front the Japanese objective is palpably to crush China's economic resistance and, wherever possible, to divert Chinese resources in order to satisfy Japanese needs.

CONTROL OF CHINA'S REVENUE

One of the first acts of the Japanese after their occupation of the Shanghai district was to cripple the work of the Chinese Customs Administration, particularly in the Yangtze-poo and Hongkew sections, and place the control of it in the hands of their puppet régime—the so-called Reformed Government in Nanking. This gave them not only an additional source of revenue to replenish their dwindling war-chest, but also a new weapon with which to monopolize the China market through the arbitrary revision of Chinese tariff rates.

Towards this end the Japanese government exerted strong pressure on British officialdom, and by April 27,

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1938, succeeded in negotiating an agreement with the British Ambassador in Tokyo whereby the "Reformed Government in Nanking" was to take over the Shanghai Customs Administration in June, 1938, and the contracting parties agreed to turn over and deposit in the Yokohama Specie Bank all future Customs revenue after deducting the necessary funds to cover China's foreign loan services. By this diplomatic feat the Japanese succeeded in depriving the Chinese government of its leading source of income, thus jeopardizing its chances of obtaining large credits from abroad. This Customs revenue amounted to \$342,889,739 in 1937 (despite the fact that the Japanese invasion had completely stopped foreign trade during the last quarter of the year), and was an increase of some \$18,266,448 over the 1936 total.¹ Had it not been for the outbreak of hostilities in July, the total Customs revenue of the Chinese government for 1937 would have easily surpassed the record of \$385,002,763 made in 1931. Owing to the effects of the war the total Customs revenue in China during 1938 amounted to \$254,570,000, which meant a decrease of about \$88,330,000 from the previous year. Obviously this attempt to control the Shanghai Customs Administration, which is being extended into other Japanese occupied areas, has had a considerable effect in weakening China's economic front.

The National Government of China has made its attitude towards this unrecognized understanding between the Japanese and British governments quite clear. The

¹ Unless specified otherwise, all monetary figures given in this book are in Chinese national currency.



Iron corpses which will no longer compete with Japanese industries.



Typical Chinese factory in Shanghai destroyed by Japanese aerial bombardment

Typical Chinese factory in Shanghai destroyed by Japanese aerial bombardment

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Chinese Maritime Customs is an institution of the Chinese government. And as the Chinese government is in no way a party to the above understanding, it is naturally under no obligation whatever to accept the changes brought about by this illegal agreement.

However, under this agreement numerous Japanese imports (and a few foreign items thrown in for decorative effect) will enjoy tariff reductions as low as 50 per cent of the official Chinese rates inaugurated in 1931, while a carefully selected group of goods, such as mining implements and tools, boring machines, blast furnaces, coal-cutters and power shovels, will be exempt from Customs duties so as to facilitate the installation of Japanese development companies in the occupied areas.

As if this tariff victory were not sufficient to satisfy the Japanese appetite for export expansion, hundreds of Japanese merchants, chiefly of the *ronin* or knavish type, have been carrying on a "special trade"—which should be more honestly called smuggling—in all the coastal cities which their armies have taken. This has given rise to an extraordinary shipping boom between Shanghai and Nagasaki. Large quantities of smuggled goods, ranging from textiles to sugar, have in this way been stocked up in Japanese warehouses, godowns and shops, and are now underselling competing commodities from other countries. In fact, this "special trade" has grown to such dimensions that it has become a disturbing factor to the legitimate business of the Japanese themselves. As economic chaos develops in the war-stricken territories, this conflict of interests between the big Japanese concerns and the small traders

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engaged in smuggling activities will become an increasing problem for the Japanese authorities to tackle.

In addition to controlling the Customs revenue in all the occupied regions, the Japanese have now arranged with their puppet régimes to collect all sorts of local taxes and licence fees. The burden and variety of these illegal taxes which the impoverished populace in the Japanese-controlled territories have to bear are even worse than the exorbitant inland transit duties imposed by the former war-lords or *tchmans* during the days of civil war in China. For instance, in Shanghai alone an article is sometimes taxed three or four times before it reaches the ultimate consumer—first by the Japanese military authorities and their underlings, then by the so-called “Ta Tao city government” and afterwards by the “Reformed government in Nanking”. In this sphere of economic exploitation, the Japanese use the same method of handing out monopolistic rights to their favoured servants as they do in Manchuria and North China. In return for the advance of a specified sum of money, the Japanese protect a Chinese collector in a specified area or in respect of specified goods. Thus hardly a day passes without the Chinese collector or tax bureau introducing new taxes. Among the 40 common articles now taxed through these illegal monopolies are: rice at \$1.00 per bag; vegetables at \$0.50 per basket; poultry at \$1.00 per crate; gasoline at \$0.15 per tin of five gallons, and cigarettes at \$0.05 per package. Other forms of taxation either enforced or under consideration include levies on all incoming boats and junks into Shanghai, stalls on streets, shops, transport vehicles, houses, businesses

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and land. These sources of revenue have enriched many petty Japanese officers, besides attracting numerous undesirable Chinese elements to undertake the racket. As what is being done in Shanghai is being repeated in other occupied cities, the amount of "squeeze" that is continuously pouring into the Japanese war-chest must be quite a handsome one.

Moreover, the Japanese have seized many of the leading Chinese railways and shipping undertakings, and as far as possible are operating them with a view to meeting a part of their war expenses in China. In a report issued in January this year, the Chinese Minister of Communications estimates that a total of 6500 km. of railroads have fallen into Japanese hands between July, 1937, and November, 1938, and that only about 3200 km. of the total length of China's railways still remain in Chinese control. No less than fifteen important railways (excluding branch lines) are now held, in varying degrees of security, by the Japanese, while the consequent loss of revenue to the Chinese government must amount to a staggering figure. Two of these lines in North China alone, the Peiping-Suiyuan railway and the Peiping-Mukden railway, now give a monthly net profit of no less than \$2,000,000 to the Japanese, according to data secured early this year by Mr. Hallett Abend of the *New York Times*. Some of these railways were built with foreign capital, and their seizure by the Japanese has had a ruinous effect on the interests of many foreign bond-holders. In China proper (south of the Great Wall) the main railway lines now under the Japanese occupation are as follows :

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1. Peiping-Suiyuan line
2. Peiping-Mukden line
3. Peiping-Hankow line (partially)
4. Tientsin-Pukow line
5. Tsingtao-Tsinan line
6. Tatung-Puchow line (partially)
7. Chengting-Taiyuan line
8. Lung-Hai line (up to Kaifeng only)
9. Shanghai-Nanking line
10. Shanghai-Hangchow line
11. Nanking-Wuhu line
12. Kiukiang-Nanchang line
13. Taokow-Chinghua line
14. Canton-Kowloon line (northern section)
15. Canton-Hankow line (northern and southern sections)

The losses suffered by Chinese shipping interests are more difficult to calculate, owing to the existence of many small private concerns. According to reliable sources, the value of Chinese ships destroyed in the course of the present hostilities probably runs to between \$70,000,000 and \$100,000,000. The China Merchants Steam Navigation Company alone has lost four-fifths of its total tonnage, including those commandeered by the Chinese authorities and those seized by the Japanese. Moreover, as a result of the Japanese naval blockade, Chinese shipping firms can no longer conduct business, while Japanese vessels, particularly with the backing of the recently organized shipping monopolies, are plying along all the coastal routes as well as the Yangtze and its tributaries.

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SEIZURE OF CHINESE FACTORY EQUIPMENT AND MATERIALS

In their invasion of China, the Japanese have entertained no less an interest in seizing Chinese industrial equipment and raw materials. They have been doing this so thoroughly that only one interpretation can be drawn, that is, the deliberate and large-scale expropriation of Chinese industrial equipment and materials to make up for their own economic deficiencies and war losses.

Not content with the wanton destruction by shelling and air bombings, the Japanese forces set fire to all remaining Chinese factories and properties in the adjacent areas of the Shanghai International Settlement (such as Woosung, Kiangwan, Chapei and Nantao) immediately after the evacuation of Chinese troops around the middle of November, 1937. Thereafter the Japanese army, with the assistance of *ronins*, combed all the factory districts for machinery and scrap iron. This war plunder was then loaded on Japanese transports and in this way thousands of tons of machinery and scrap iron were taken into Japan —to be made into munitions for use against the original owners! The extent of this open looting (authenticated by neutral news photographers who were invariably man-handled by Japanese sentries and *ronins*) and its damaging effect upon Shanghai's industrial future were well summarized in the *Shanghai Municipal Council Gazette* on January 7, 1938:

“In addition to 905 completely destroyed, there are possibly 1000 Chinese factories and workshops, including both large and small plants, whose premises have been damaged more or less seriously. It is not possible to state the conditions of the contents, but it is known that in some

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of the larger mills machinery has been rendered useless, and would require replacements before the mills could work. Evidence of disturbance and looting of the factory premises is common. It is therefore assumed that none of these 1000 plants could recommence operation. At the disposal of the Japanese as sources of scrap iron are the major industrial sections of Shanghai, namely, Yangtzepoo, Wayside, Hongkew, Chapei and Nantao. When they have removed all the metal they desire, it is believed that the majority of Chinese factories formerly operating in these areas will not be able to reopen without extensive replacements. Nantao Chinese, learning a lesson from what was everyday happening to the property of their nationals in north of the Creek areas, removed a large part of their machinery before Japanese occupation of the area, hundreds of tons of machinery being moved into the Concession prior to the entry of the Japanese."

CONFISCATION AND DESTRUCTION OF CHINESE INDUSTRIES

No sooner had the Japanese forces established their control over the outlying districts of Shanghai than their capitalist satellites began to seize all the strategic industries there, especially public utilities, cotton mills and silk filatures. As a first step towards the establishment of monopolistic control of communication and transportation facilities, a number of technicians were brought out from Japan and, after surveying the field along the Shanghai-Nanking and the Shanghai-Hangchow railways, they formed a Central China Water and Power Company under the general direction of the Central China Development Company, and took over the former Chapei Electric Power Company

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as well as several similar concerns in other East China cities. Telegraphic and telephone lines were also taken over, and are now run by the Japanese-sponsored Central China Tele-communications Company. Other leading Chinese firms confiscated by the Japanese include the Kiangnan Dockyards, the Chapei Water Works, the Shanghai Portland Cement Works, a semi-government alcohol factory in Pootung, several large flour mills and tobacco factories. In none of these cases did the Japanese give any compensation to the Chinese proprietors.

Japanese efforts to take over Chinese cotton mills in Shanghai—which have hitherto offered considerable competition to Japanese cotton interests—were equally drastic.¹ “Technical assistance” and “temporary operators” were forced upon those Chinese whose properties had luckily escaped looting and burning. Only Japanese concerns registered with the Japanese consular authorities in Shanghai were allowed to reopen factories in Yangtzeppo, Hongkew, Chapei, etc. As a matter of fact, only the Japanese Cotton Mill Owners’ Association was permitted to “manage” Chinese textile factories in these areas, some of which involved no small amount of Third Power investments. In return for “protection” and “co-operation” the Japanese demanded a majority interest in the Chinese mills. As practically all the Chinese mill owners refused to resume operation under such humiliating and impossible conditions,

¹ Prior to the hostilities Japan owned and operated 41 of the 136 cotton mills then functioning in China, controlling some 2,098,000 of the total of 5,172,000 spindles in the textile industry in this country. Since then, she has forcibly taken over 52 more Chinese-owned mills with a total of 1,540,000 spindles.

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the Japanese seized many cotton mills outright and are now operating these without Chinese participation.

Attempts on the part of both Chinese and foreign factory owners in Shanghai to get passes from the Japanese authorities to inspect their plants in occupied areas have so far resulted in failure. The few who have secured such passes to see their factories have found nothing but disappointment—for notices have been posted at the entrances to these mills asking their owners to approach certain Japanese interests for negotiation if entry into the plants or resumption of work is desired. In some occupied districts, the Japanese and their puppet officials have even ordered all factories to reopen before specified dates. Failure to do so would mean confiscation. In this way, many Chinese mills have been taken over by Japanese interests.

The Japanese occupation has also wrought havoc to the silk industry in Shanghai, where in normal times there are no less than 113 silk filatures, giving employment to tens of thousands of Chinese workers. The Japanese have not only confiscated and destroyed many of these silk filatures, but also have adopted a new sericultural policy for Chekiang and Kiangsu whereby the Chinese silk industry will be revived only as an accessory to the Japanese silk industry. According to the plans of the Japanese Ministry of Agriculture and Forestry, a Sino-Japanese Silk Syndicate (affiliated with the Central China Development Company) is to be organized to "supervise" the whole silk industry in the occupied regions of China. This syndicate, which is reported to have a capital of Yen 8,000,000, will control the collection of silk cocoons as well as silk reeling and

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weaving. It will further adjust the Chinese silk prices to those of Japanese silk, fix export quotas for Chinese silk, and confine its sale within markets not yet touched by Japanese export interests. Japanese agents are now distributing "improved" silkworm eggs to Chinese peasants in Central and East China who, from now on, will have to sell their cocoons to Japanese merchants at arbitrary prices.

While it is impossible to calculate the losses which the Japanese invasion has inflicted upon Chinese industries, it is no exaggeration to say that it has completely arrested industrial development in the coastal provinces. Japan's economic onslaught has not only destroyed hundreds of Chinese factories and workshops, but also disrupted the socio-economic life of the main cities to an almost irreparable degree. It is clear that the large-scale migration of population caused by the present hostilities has affected the labour supply, especially as regards skilled labour, in the leading industrial centres. Along the Shanghai-Nanking and the Shanghai-Hangchow railways, scores of villages have been reduced to ashes, just as in North China. Millions of people have been driven away from their homes and forced to move to the far West. Even when eventually certain industries can be revived, the workers will surely not be able to command the same conditions of treatment as they enjoyed before.

That the Japanese have effectively arrested industrial progress in Shanghai has been conservatively estimated by the Industrial Section of the Shanghai Municipal Council. According to this source,

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than the bank-notes of the 'Federal Reserve Bank' in Peking". But ears or no ears, the Chinese are showing little confidence in the puppet currency but are secretly holding on to their legal tender notes, issued by the official agencies of the Chinese government.

The "Federal Reserve Bank" (this name should in no way be construed as anything resembling the famous Federal Reserve Bank system in the United States) was inaugurated in March, 1938, with a proposed capitalization of Yuan 100,000,000, half of which, it was reported, was subscribed by the "Provisional Government in Peking" and half by Chinese banks in North China. Silver stocks remaining in all the banks in Peiping and Tientsin were to be taken over and concentrated in the "Federal Reserve Bank" as a specie reserve. There would be no free conversion of notes into specie, but a so-called managed currency would be adopted and enforced, while the value of the new notes would be treated as equal to the Japanese yen. According to the Japanese plan, the "Federal Reserve Bank" notes should become the national currency in North China (all payments to be made in this money), although the circulation of the old Chinese government bank-notes would be temporarily recognized. The Tientsin, Tsingtao and Shantung notes of the Bank of China and the Bank of Communications (both are Chinese government institutions) and the notes issued by the former Hopei puppet banks would be permitted to circulate for a period of one year, while the other notes of Chinese government banks would not be allowed to circulate after three months' time.

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On March 3 this year, the "Provisional Government in Peking" issued an order outlawing the old Chinese government bank-notes, and stipulated that, beginning from March 10, only the notes of the "Federal Reserve Bank" shall be regarded as legal tender.

But this attempt at creating value out of vacuum has not only ended in failure but has become a boomerang to the Japanese themselves. As an experienced observer and economist in North China writes :

"No one can actually exchange a single dollar with the 'Federal Reserve Bank' notes for any Japanese currency *that is of foreign exchange value*. The local directors of Chinese banks who refused to contribute by handing over cash or legal tender had to flee for their lives, and the foreign bankers were severely criticised for lack of co-operation simply because they refused to accept rubber money. The notes issued by the 'Federal Reserve Bank' are of large size printed by the Bureau of Engraving. The dragon design was originally prepared but not adopted by the Ta Ching Bank of the Manchu dynasty. According to the announced regulations, legal tender notes were to become illegal three months from the date of issue of the new notes except those legal tender notes issued in Peiping, Tientsin, Tsinan, Tsingtao, etc., which were given grace of a whole year. Equally acceptable are the notes issued by the Bank of Chosen, the East Hopei Bank, the South Chahar Bank, and the Hopei Provincial Bank which has been taken over by the 'Stop-gap Government'. The newspapers repeatedly printed fabulous reports of people all over the countryside rushing for the new notes even at a premium. But as a matter of fact the market rate in the Tientsin Concession ranges from \$105 to \$115 for every \$100 Chinese legal tender. Foreign banks keep separate accounts for deposits

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in the new notes from those in legal tender, and foreign business houses insist on the latter currency. Travellers are allowed at the risk of confiscation to carry the maximum of \$500 legal tender notes per person, but a good deal of smuggling is going on."¹

With the inauguration of the Chinese Currency Stabilization Fund in March this year, coupled with the increase in guerilla activities in all the Japanese-occupied districts during recent weeks, the "Federal Reserve Bank" notes have been suffering further declines in market value—even within the walls of Peiping. Owners of these "puppet" notes have offered to sell them in return for Chinese money at a discount of 32 to 35 per cent at the end of April this year. Confronted with military uncertainties and political opposition, the Japanese and their puppet régime will unquestionably have an increasingly difficult time to stabilize the bogus currency from now on.

Short of funds to carry on their military campaign in China, the Japanese authorities early in the autumn of 1938 have resorted to the issuance of "war notes". These notes are used in paying Japanese troops, who in turn impose them on Chinese shopkeepers and workers in the occupied areas. It is estimated that over Yen 50,000,000 of "war notes" have already been issued for use in Kiangsu, Chekiang and Anhwei. Since these notes are inconvertible and are

¹ From an article written by a Chinese professor in Peiping and released by the China Information Committee, Hankow, October 21, 1938. On January 25 this year the Japanese finance minister, Ishiwata, admitted that "it is a weakness that the Federal notes are still not exchanged for foreign currency.", and added that such notes in circulation in North China have reached Yen 150,000,000.

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unacceptable beyond the range of Japanese guns, they have been causing considerable hardship to Chinese peasants and workers. But the Japanese authorities, with the help of various puppet régimes and "paidagents", are continuing their efforts to displace the old Chinese legal tender with "military notes" in all the occupied territories in Central and South China. In this way, the Japanese hope to pocket all the cash in China and leave nothing of foreign exchange value in regions under their domination. The ruinous effects of such financial manipulations on both Chinese and foreign business activities are too obvious to require comment.

"ECONOMIC CO-OPERATION"

One of the stock phrases which the Japanese have been using to justify their invasion is "economic co-operation between Japan and China for their co-existence and co-prosperity". It does not seem to have occurred to them that such co-operation as they have been promoting in China has been tantamount to coercion, and has therefore aroused nothing but the ill-feeling of the entire Chinese people. Out of a devastated China, the Mikado's war-lords now hope to create a new country as the corner-stone for their great Asiatic empire. To them, the slogan "Asia for the Asiatics" really means Asia for the Japanese only !

The rulers of Japan realize that time is an all-important element in their whole plan of empire-building. Thus immediately following the occupation of Wuhan in October, 1938, the Japanese set up a Central Bureau for East Asiatic Affairs, whose ultimate aim is to control all political,

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economic and military affairs in China. Under the direction of this powerful bureau, it is hoped to develop a Japan-China-Manchukuo economic bloc with Tokyo as the pivot, and to squeeze out all foreign interests and influence in the Orient. With almost one-third of China proper under military domination, the Japanese no longer try to comfort their Western rivals with the usual pretences but are going ahead with their plans of economic conquest. According to the *Chugai Shogyo Shimbo*, an influential commercial daily in Tokyo, the general principles of this much-talked-about programme of economic co-operation with China have been carefully worked out by the Minseito, which is the largest political party in Japan. According to this paper, the following points have been adopted to meet the so-called new situation in China :

1. An East Asiatic League will be organized between Japan, Manchukuo and "New China" for the maintenance of peace and order in the Far East. For this purpose the three countries should co-operate with one another.
2. Japan, Manchukuo and "New China" should co-operate in measures for defence against the penetration of Communistic influence in the Far East.
3. Co-operation in national defence between these three countries.
4. Economic co-operation between these three countries on the basis of co-existence and co-prosperity and promotion of the Oriental culture common to Asiatic nations.

To carry out the above policies, the Minseito has urged the Japanese government to take the following measures :

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1. Japan should make every effort for the maintenance of peace and order in Japanese-occupied areas in China, for the economic development, rehabilitation and establishment of cultural facilities in "New China".
2. Japan should guide local régimes which have been established in accordance with the geographical, historical and economic conditions in the different districts, so that they will eventually be united into a Central Government of China. The projected Central Government will be recognized by Japan as one unit of the projected Asiatic League. Foreign Powers will be induced to extend recognition to the new Chinese Administration.
3. The economic structure in "New China" will be reconstructed on the principle of the economic bloc between Japan, Manchukuo and China. The Open Door policy for foreign Powers will be respected *under* the new economic structure.
4. With the economic rehabilitation of the "New China" progressing, China's currency will be gradually linked with Yen, while a barter system will be operated for the smooth conduct of trade between Japan, Manchukuo and China along the lines of a unified economic policy.
5. Japan's cultural policies for China will be designed to eliminate such ideas as encourage resistance against Japan and co-operation with Communists. For this purpose, the traditional spirit and virtues inherent in the Orient will be enhanced.
6. Economic policies should be calculated to stabilize the livelihood of the Chinese people, while co-existence and co-prosperity will be the guiding principle of all economic enterprises between Japan, Manchukuo and China.

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7. Japan should induce the Powers to recognize her position as the guiding Power in the Far East and the trinity relations between Japan, Manchukuo and China.
8. And Japan should establish herself on a firm ground in the international diplomatic field by strengthening the existing anti-Comintern Pact.¹

As a first step towards the development of the new economic bloc in East Asia, a joint conference between the representatives of Japan, "Manchukuo", "New China" and Inner Mongolia was engineered and held in Osaka during the latter part of November, 1938. At this conference, the "vital necessity of organizing an economic bloc between the four countries for building up a new order in East Asia was duly emphasized". The tone of the conference was clearly indicated by a speech made by Mr. Kunizo Hara, a Japanese insurance chief and financier, who said, *inter alia*, "The highest standard of economic efficiency must be attained by the mutual supply of raw materials, funds, technique, labour, etc., to complement each other between Japan, Manchukuo, China and Mongolia, which will be united in one economic bloc".

Japanese government officials have spoken with equal frankness about the objectives of this Far Eastern economic bloc. In high sounding and seemingly harmless terms, Mr. Hachiro Arita, the Japanese Minister of Foreign Affairs, openly declared on December 19, 1938: "What Japan desires is a new order which will ensure the permanent stability of East Asia, or, in other words, the establishment of a relation-

¹ This information must be taken as fairly authentic, for it came from *Domei*, the official Japanese news agency, on November 1, 1938.

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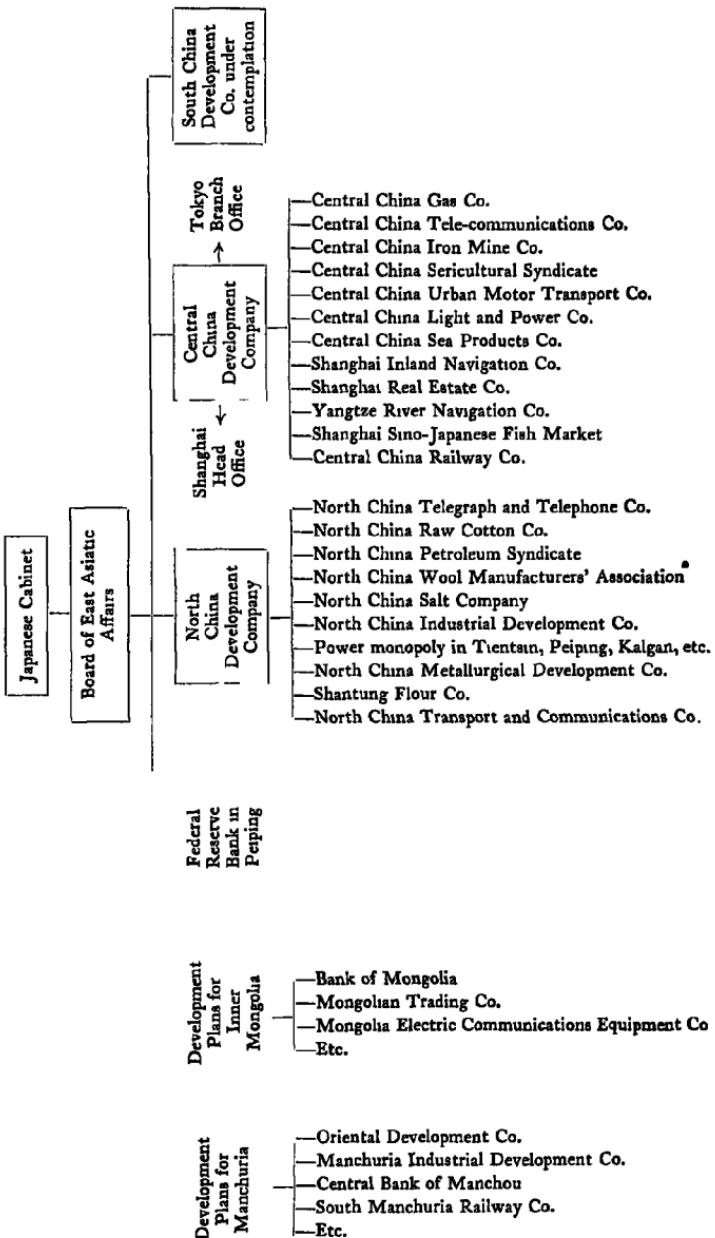
ship of mutual helpfulness and co-operation between Japan, Manchukuo and China in political, economic and cultural fields. It is not only of benefit to the Chinese people themselves but to the whole of East Asia to lift China from its present semi-colonial status to the position of a modern state."

Inaugurated in Tokyo in the Fall of 1938, the Board of East Asiatic Affairs is to implement the policies of the Japanese militarists. Headed by a president, with four vice-presidents, and a secretary-general (the Japanese foreign minister, war minister, finance minister and naval minister are serving as vice-presidents *ex-officio*), the new board will take charge of all political, economic and cultural affairs in East Asia, formulate the government's policies towards the "China Incident", supervise and control the semi-official companies especially chartered for conducting business in China, and co-ordinate and unify the administration of China affairs now handled by different departments of the Japanese government. That this board is meant to become Japan's chief weapon for turning China into a mere vassal state (just as the former Manchuria Affairs Bureau of the Japanese government converted China's Three Eastern Provinces into the puppet state of Manchukuo) is explained in its own definition of purpose: "To conduct long-term rehabilitation and reconstruction of China by mobilizing and co-ordinating the national resources so as to make the Chinese people realize the indispensability and rationality of their co-operation with Japan in joint efforts for the establishment of peace in East Asia".

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It is obvious that if Japan succeeds in enforcing the above economic policies and measures, the scope of which is of world-wide significance, it will mean the virtual enslavement of one-fifth of mankind and the permanent breakdown of Western interests and prestige in the Orient. Today Japan is not yet in a position to conquer the whole of China and to completely ignore Western sensibilities. But if towards these fantastic dreams of military *and* economic conquest we turn a deaf ear or try to console ourselves by underestimating Japan's determination and ambitions, we may some day find ourselves in a rather hopeless situation and thus have to bow down to Japanese fancies just as the Formosans and the Koreans are already kowtowing to their Japanese masters.

CHART SHOWING JAPAN'S PLANS FOR ECONOMIC CONQUEST OF CHINA



Chapter III

JAPAN'S OFFENSIVE AGAINST THIRD POWER INTERESTS

JUST as the Japanese steam-roller has crushed all foreign interests in Manchuria, so the same process is being openly carried out in all the Japanese-controlled regions in China proper. The foreign trade of Manchuria is now almost entirely in the hands of the Japanese, as nearly 80 per cent of the goods imported into that area come from Japanese sources, while about 65 per cent of the exports are sent to Japan. The same tendencies can be noticed in North China today, and are spreading into East and Central China. This economic offensive is now fairly well known to foreign officials and business men in China, but its implications are not yet fully appreciated abroad. In this chapter we shall review Japan's elaborate system of economic penetration in China as well as some of the more glaring examples of Japanese violation of Third Power treaty rights.

JAPAN'S DEADLY ECONOMIC WEAPONS

In order to establish economic supremacy in the Far East and to exploit the natural resources of China, the Japanese government has carefully mapped out and is now

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organizing a series of commercial and industrial development schemes in North and Central China, based on its findings and experiences in Manchuria. These schemes are engineered and directed by the Central Board of East Asiatic Affairs in Tokyo, set up last year by the Japanese Cabinet. Under this board, two big holding companies—the North China Development Company and the Central China Development Company—have been formed to push Japanese trade and industrial activities in the occupied territories. The two development companies are intended to branch out into all the strategic lines of economic activity in China, and to become virtual monopolies in their respective fields. As weapons for carrying out Japan's policy of economic domination, they are to become more deadly and powerful than the South Manchuria Railway Company and the Oriental Development Company which have played such an important rôle in helping Japan to conquer China's Three Eastern Provinces during the last few decades.

As a first step towards the establishment of economic supremacy in North China, the Japanese government is freeing the South Manchuria Railway Company of its new industrial units in "Manchukuo", and is entrusting it with full responsibility for taking over and unifying the transport system in North China. While there is bound to be some overlapping between the South Manchuria Railway Company and the newly organized North China Development Company, the former is to be chiefly engaged in developing communication and transportation facilities, while the latter is to be largely occupied with the promotion of trade and industrial enterprises. As stated in the Tokyo

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Asahi Shimbun of January 20, 1938, "a unified management of the continental railways connecting Chosen, Manchuria and North China will be brought into existence". In conformity with this plan, the South Manchuria Railway Company took over the operation of all the former Chinese lines in North China, such as the Peiping-Liaoning Railway, the Peiping-Suiyuan Railway, the Peiping-Hankow Railway and the Tientsin-Pukow Railway (though considerable portions of these lines are constantly threatened and often disrupted by Chinese guerilla forces). And with the South Manchuria Railway Company playing the leading rôle, a North China Transport and Communications Company was inaugurated in February this year.

But for developing the natural wealth and trade enterprises in North China, the Japanese government has forged a new and even more dangerous instrument—the North China Development Company, in addition to the Japanese-controlled Federal Reserve Bank, which has a similar mission in the field of banking and finance. The North China Development Company is organized under the laws of Japan, with a proposed capital of Yen 350,000,000, half of which is reported to be provided by the Japanese government and the other half by public subscription, preference being given to families of soldiers. Of the share to be borne by the Japanese government, only Yen 55,569,622 have been paid up so far, states the *Japan Chronicle*, while the private shareholders have paid in only Yen 43,750,000.

The objectives of the North China Development Company are: (1) to invest in major systems of transportation and harbour works; (2) to finance communication

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enterprises and facilities ; (3) to promote power and light companies ; (4) to develop mines and mineral resources ; (5) to establish salt manufacturing and salt industries ; and (6) to engage in other lines in which co-ordinated development and management are necessary to carry out a so-called economic expansion movement in North China. All the development schemes launched and operated by the North China Development Company are worked out with a view to complementing the industrial expansion plans of Japan and " Manchukuo ".

The manifold and large-scale activities which the North China Development Company proposes to undertake may be easily seen from the following summary of trade and industrial monopolies it is now trying to establish directly and indirectly, in North China :

1. North China Raw Cotton Company, organized in March, 1938, with a capital of Yen 3,000,000 to control cotton production in North China, where, prior to the present hostilities, the output reached as much as 36 per cent of the total production for all China.
2. North China Industrial Development Company, organized in 1938 with a capital of Yen 100,000,000 to develop mineral resources and heavy industries, such as :
 - (a) *Coal*.—Japanese plans for coal in North China include the urgent development of the Tatung coalfields to the extent of some 700,000 tons a year in order to ensure an adequate supply of boiler coal for Japan (Tatung fields estimated to contain a coal reserve of about 12,000,000,000 tons), the doubling of the transport capacity

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for coal on the Peiping-Suiyuan Railway, the development of coal mines in East Hopei for coking purposes in Japanese foundries, a 20-40 per cent increase in output in the coal mines along the Peiping-Hankow Railway such as Lincheng and Liuhsikow, and the rehabilitation of coal mines in Shantung province.

(b) *Iron.*—Japanese plans for iron in North China include the development of the iron resources in Chahar, Hopei, Shansi and Shantung, although it will be some time before adequate equipment can be obtained for operation, the restoration of the Lungyen mine and the improvement of the Shihchingshan Iron Works near Peiping, which is to be managed by the Japan Iron Manufacturing Company. Iron ore reserves in Lungyen are estimated to be about 100,000,000 tons, and the ores are being smelted in Shihchingshan, with the Japanese aiming at an output of some 80,000 metric tons a year.

3. North China Telephone and Telegraph Company, organized in Peiping in 1938 with a capital of Yen 35,000,000, of which Yen 13,000,000 are controlled by the North China Development Company. The new company is to "take over" and operate all tele-communication facilities in the North.
4. North China Salt Company, organized with a capital of Yen 30,000,000 as a subsidiary of the North China Development Company, to control and develop the famous Chang-lu salt fields, which will then provide an adequate supply for soda, rayon and glass industries in Japan. Japanese firms which are participating in the new salt enterprise include the Oriental Development Company, the Dai Nippon Salt Industry, etc. For the first period of the new

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development programme, an annual output of 1,000,000 metric tons of salt is aimed at.

5. North China Transport and Communications Company, set up in February, 1939, to take over and operate all former Chinese government railways in North China and capitalized at Yen 300,000,000.
6. North China Metallurgical Development Co., capitalized at Yen 10,000,000 to develop and monopolize the mining of nickel and other light ores in North China.
7. North China Petroleum Syndicate, organized with a capital of Yen 20,000,000 to enjoy the sole right of importing and selling petrol and petroleum products in North China and Inner Mongolia.
8. Wool Manufacturers' Association, formed in Kalgan with a capital of Yen 8,000,000 by eight Japanese controlling companies. This association is charged with the exclusive purchase of wool, camel hair, etc., in the "autonomous Mongolian area", as well as with the management of former Chinese government woollen mills in Peiping and Suiyuan. Under Japanese supervision, the association will also push wool production in Mongolia and establish new plants in Tientsin.
9. Power monopoly. Japanese power and light enterprises in North China are chiefly in the hands of the Hsing Chung Kung Ssu, which controls and operates the power and light plants in Peiping, Tientsin and Tungchow. A new company is to be created soon to "take over" and operate the plants in Kalgan Tatung, Kweihua and Paotow.
10. Shantung Flour Company, organized to take over and operate all former Chinese-owned mills in Tsingtao, Tsinan and other cities in Shantung.

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To exploit the natural wealth and to control trade and industry in Central China, the Japanese government has formed a Central China Development Company along the same lines as the sister organization in North China. Inaugurated in Tokyo on November 7, 1938, the Central China Development Company is reported to have a capital of Yen 100,000,000, which is to be shared equally by the Japanese government and private interests. While at present the company has its headquarters in Tokyo, it is planned to eventually establish its head office in Shanghai, so as to be closer to the field to direct its various plans of economic exploitation in Central China.

The purpose of the Central China Development Company is obviously the control of all leading economic activities in Central China, just as the sister organization is aiming to do in the North. As instruments for enforcing this policy of economic control and domination, the Central China Development Company is now forming, directly and indirectly, the following concerns :

1. Central China Tele-communications Company, organized on July 31, 1938, with a capital of Yen 25,000,000 to "take over" and operate all telegraph and telephone lines in Shanghai, Nanking, Hangchow, and other cities in Central China, as well as to inaugurate a radio service between Shanghai and Japan.
2. Central China Sericultural Syndicate, capitalized at Yen 8,000,000 to control the production and marketing of silk cocoons in Kiangsu and Chekiang, and to "take over" and operate former Chinese-owned silk factories in Wusih, Changchow, Hangchow and Shanghai.

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3. Central China Urban Motor Transport Company, organized in November, 1938, with a capital of Yen 3,000,000 to start and operate motor transport systems in East China.
4. Central China Iron Mine Company, formed on April 8, 1938, with a capital of Yen 20,000,000 as a joint undertaking of the Hsing Chung Kung Ssu (affiliated with the South Manchuria Railway Company), Japan Steel Tube Company and the Asano Iron Works. The new concern will engage in the development of iron mines in Chekiang, Anhwei and Kiangsu, as well as "take over" the famous Tayeh Iron Works in Hupeh, aiming at an annual production of 1,000,000 tons of iron ore to meet some of Japan's increasing requirements.
5. Central China Gas Supply Company, formed on December 28, 1938, with a capital of Yen 3,000,000, jointly financed by the Central China Development Company and several gas and chemical firms in Japan.
6. Central China Water and Power Company, organized on June 30, 1938, with a capital of Yen 25,000,000 to control and operate former Chinese-owned water and power supply firms in Chapei (Shanghai), Nanking, Wusih and Hangchow. Of the total capital, the Central China Development Company is reported to have given Yen 7,500,000.
7. Central China Marine Products Company, formed on November 6, 1938, with a capital of Yen 1,300,000, of which Yen 1,000,000 is to be provided by the Central China Development Company. The new company is to control the fishing business along the East China coast and to work hand in hand with the Shanghai "Sino-Japanese" Fish Market Company mentioned below.

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8. Shanghai "Sino-Japanese" Fish Market Company, organized on July 25, 1938, with a capital of Yen 100,000 to control and operate the former Chinese fish market in Yangtzepoo.
9. Shanghai Inland Navigation Company, organized on July 28, 1938, with a capital of Yen 2,000,000 to "take over" and manage all the passenger and freight traffic on the rivers and waterways spreading out from Shanghai. Of the total capital, the Central China Development Company is reported to have given Yen 600,000 and the Nisshin Kisen Kaisha (better known as N.K.K.) Yen 400,000, the remaining sum of Yen 1,000,000 to be made up by the property assets taken over from former Chinese shipping firms.
10. Shanghai Real Estate Company, formed on September 1, 1938, with a capital of Yen 2,000,000, half of which is provided by the Central China Development Company. In addition to the real estate business, the new company will engage in developing roads, wharf facilities and municipal reconstruction work in Shanghai and vicinity.
11. Yangtze River Navigation Company, organized on December 10, 1938, as a joint concern for the N.K.K., the D.K.K. and the Central China Development Company, to control all shipping on the Yangtze and to operate all the wharf facilities in the ports along this river.
12. Central China Railway Company, organized in April, 1939, with a nominal capitalization of Yen 50,000,000, of which 40 per cent will be theoretically allotted to the Nanking puppet régime as counter-value of the 770 km. of railways in the hinterland of Shanghai, another 40 per cent to the Central China Development Company, and the remaining 20 per cent to

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Japanese railway concerns. The Central China Railway Company will take over and operate the Shanghai-Nanking line, the Shanghai-Hangchow line, the Nanking-Wuhu-Sunchiapu line, the Soochow-Kaishing line and the Shanghai-Woosung line.

While these Japanese development schemes appear quite impressive, and it is true that, if carried out in their entirety, they will eventually succeed in crushing all Chinese and foreign business in North and Central China, they are nevertheless meeting with many serious obstacles. First of all, although these plans are all reported to have been capitalized in terms of millions of yen, they have not obtained so much in the way of capital funds as they are supposed to have. Actually paid-up capital does not amount to a very large figure. With only a few exceptions, all of the new development concerns have been brought into existence by virtue of assets and properties seized from former Chinese owners, and they have to secure enormous sums of working capital before they can operate in full force. And since no large credits can now be procured in the West, the North China and the Central China development companies must depend upon the leading family trusts in Japan, such as the Mitsuis and the Mitsubishiis, to finance and launch their gigantic programmes of trade and industrial expansion. However, these trusts are no longer in a position to supply adequate funds to finance large-scale development schemes in China, and have had, indeed, to reduce their investments in Manchuria since the outbreak of the present war. Of course, some of the

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working equipment and capital can be obtained from certain allied interests in Japan, such as the Japan Telegraph and Telephone Company, the Japan Sugar Association, the Japan Coal Association and the Japan Steel Tube Company; but what these allied interests in Japan have provided is but a small portion of that actually required in North and Central China.

Secondly, the Japanese are in control of only the strategic cities and lines of communication, while in the country districts the Chinese government still functions as before, and the Chinese guerillas are making it difficult, if not impossible, for the Japanese to go ahead with their much-vaunted "reconstruction" work. As Dr. H. H. Kung reported to the People's Political Council in February this year, of the total of 941 counties in the eleven war-affected provinces of China (Kiangsu, Chekiang, Fukien, Anhwei, Kiangsi, Hupeh, Hunan, Hopei, Honan, Shantung and Shansi), 583, or about 62 per cent, are still completely under Chinese rule; 245, or about 26 per cent, are partially under Chinese control; and only 55, or 6 per cent, are fully under the influence of the Japanese. Due to uninterrupted administration of Chinese magistrates in all the war-affected areas as well as to the non-co-operation of Chinese residents in the occupied districts, the Japanese can only conduct business along the main highways and railway lines.

Therefore, large-scale development of trade, industry and mineral resources, which the Japanese have been hoping for, has not yet taken place and is chiefly in the blue-print stage. The significant point about Japan's economic offensive in China, however, lies in the deadly nature and

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ultimate motive so clearly shown in all the development schemes given in the last few pages. The implications of these elaborate plans of economic penetration are worth thinking about, just as their manifold ramifications are designed to ultimately freeze out all legitimate Third Power interests and activities in the Orient.

JAPAN CLOSES THE YANGTZE

Simultaneously with the development of trade and industrial monopolies in North and Central China, the Japanese authorities are also doing their best to close the leading trade channels in China to all non-Japanese enterprises. Perhaps the most nearly effective method which the Japanese are using to cut off China's trade relations with the Western countries is the control of the leading seaports and trade routes, particularly the Yangtze river and the Pearl river, although both of these have been made international waterways by a series of treaties to which Japan is also a partner.

The importance of the Yangtze river as an international trade channel can be easily realized if one remembers that it has served as the main artery of domestic and foreign commerce in China for nearly a hundred years—ever since the signing of the Treaty of Nanking in 1842. The Yangtze runs through a vast territory, inhabited by about 180,000,000 people. Normally the Yangtze river basin provides the great bulk of the nation's foreign trade, while in the various treaty ports along this waterway foreign Powers have built up large investments in the form of banks, factories, wharves, docks and godowns. In Hankow, for example, British

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investments alone amount to over £50,000,000. The China Navigation Company and the Indo-China Steam Navigation Company have invested millions of dollars in river boats and shipping facilities, and have carried on a very prosperous trade with the interior of China for nearly a century. Through the closure of the Yangtze river, the Japanese have not only stopped all foreign navigation and commerce in the very heart of China, but they have also rendered these valuable investments idle and perhaps worthless.

In preventing foreign vessels from using the Yangtze, the Japanese authorities have given out a very flimsy excuse, *i.e.* that the river is still infested with mines, booms and Chinese "bandits", and is therefore unsafe for navigation. While the Japanese have promised to allow neutral ships to go up the river "when conditions permit", their pretext cannot be accepted as valid, as already revealed by the successful investigation tours made by Sir Percy Noble, commander-in-chief of the British China Squadron, and Rear-admiral H. E. Yarnell, commander-in-chief of the American Asiatic Fleet.

Moreover Japanese shipping firms in Shanghai such as the N.K.K. have been openly maintaining regular sailings with cities as far west as Wuhu, Kiukiang and even Hankow. As the *North China Daily News*, leading British daily in Shanghai, states : "Tens of thousands of tons of produce for export, and imported goods, are passing up and down the Yangtze under Japanese auspices and for Japanese account". During the month between October 26 and November 27 alone, a total of 3229 Japanese-controlled ships went up-

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river and 1738 went down-river, including various kinds of small craft.¹ Japanese vessels have been going up-river with large quantities of manufactured goods, paper, matches, textiles, kerosene, cigarettes, salted fish and sugar, and have been bringing back to Shanghai for trans-shipment to Japan thousands of packages of Chinese raw materials, such as iron ore, copper, bristles and foodstuffs. In Nanking, several thousand Japanese business men have established themselves in both the wholesale and the retail trade, and have been literally flooding the city with made-in-Nippon goods, all foreign stocks having been taken away or destroyed. To deceive Third Power interests, the Japanese have changed the commercial markings on their boats and have declared that all their shipments have been made for "military consumption".

The control of the Yangtze, coupled with the arbitrary reduction of Chinese tariff rates since January, 1938, and often the evasion thereof, has enabled Japan to make rapid gains in her trade with certain parts of China. Today in practically all of the categories of goods which Japan is capable of producing, she has seized the premier position in the China market, such as cotton piece goods, woollen textiles, artificial silk, metal ware, sugar, paper, timber, chemicals, fishery products, light machinery and chinaware. Indeed, in the occupied regions Japan is now selling far more than the United States, Great Britain and Germany put together. According to the Japanese ministry of finance, the total of Japanese exports to the occupied areas in China

¹ According to a United Press despatch from Hankow on December 2, 1938.

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during the first nine months of 1938 has increased by \$94,000,000 over the same period of 1937. In August, 1938, Japanese exports to China exceeded those of all the other countries. This tendency continued in the following month. With the capture of Wuhan and Canton in October, 1938, Japan has added reasons to expect further trade increases with the occupied areas. And much of this trade is being conducted by the Japanese without paying the required Customs dues and harbour fees ! The following table shows the relative positions of Japan and other leading Powers in China's foreign trade during 1938 :¹

TABLE I
SHOWING POSITION OF MAJOR POWERS IN CHINA'S FOREIGN TRADE

Country	Imports from	Exports to	Total
Japan . . .	\$209,864,000	\$116,547,000	\$326,411,000
U.S.A. . .	151,254,000	86,853,000	238,107,000
Germany . .	112,939,000	56,440,000	169,000,000
Great Britain .	70,606,000	56,769,000	127,375,000

What has been said about the Yangtze is also true of the Pearl river and almost the entire China coast. The Pearl river traffic is now at a standstill, as far as Third Power interests are concerned, while statistics reveal that at practically every important port along the China coast there were fewer calls by Chinese and foreign vessels last year than there were in 1937.

¹ Based on statistics compiled by the Chinese Customs Administration in Shanghai. In this connection it is interesting to recall that in 1937 the premier position in China's foreign trade was held by the United States, with Great Britain, Japan and Germany following in order of importance.

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Besides the closure of the Yangtze, the Japanese authorities in China have imposed a variety of other restrictions upon foreign shipping firms, such as special permits, military passes, licences and taxes. No such hindrances are placed on Japanese shipping companies. For example, the Shanghai inland Navigation Company formed as an auxiliary firm of the N.K.K. has now monopolized all commercial traffic on the inland waterways spreading out from Shanghai. It is operating no less than 162 vessels, many of which were seized from former Chinese shipping concerns, and is conducting a profitable trade between Shanghai and the East China cities. The Company not only dictates the freight rates, but also exerts a controlling influence upon the prices of goods brought in from the interior—goods which foreign merchants in Shanghai have to buy for exportation to Europe and America.

TRADE AND EXCHANGE CONTROL

Another method which the Japanese have adopted in driving out foreign trade in the occupied areas is the institution of what is generally called export control. For this purpose the Japanese promulgated a set of regulations as early as July, 1938, the enforcement of which not only placed all the export business in North China in Japanese hands but also gave them the much-needed foreign exchange. According to these regulations, first enforced in Tsingtao and subsequently extended to Chefoo and Weihaiwei, all exporters desiring to ship goods out of those ports were required to obtain trade permits from the Japanese authorities and to negotiate their trade documents through

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the Yokohama Specie Bank at the Japanese official rate of exchange, which was much more unfavourable than the open market rate. As a result, non-Japanese export firms have been forced to remain idle while Japanese merchants have been doing a thriving business in the above-mentioned ports.

A neutral observer in Tsingtao reported how these export regulations have operated to "freeze out" foreign enterprises in these words :

"The prohibitive regulations in force here in regard to exports from Tsingtao are still in force. Japanese exporters are getting round the regulations which are chiefly aimed at obtaining foreign exchange, by negotiating their export documents at Shanghai at currency rates of exchange and obtaining permits to ship in Tsingtao from the local authorities. Other exporters are unable to obtain these permits to ship unless they negotiate their documents through the Japanese Yokohama Specie Bank at the official rates of 1s. 2d. for sterling and 29 for U.S. dollar. As a result of these strangling restrictions, non-Japanese exporters are forced to remain inactive, while Japanese shippers are selling freely to Europe and America, especially to the latter country. Tsingtao merchants are not even granted the normal financing facilities, documents being sent to destination for collection, the bank refusing to purchase the documents for cash or credit, nor will they grant an overdraft. In other words, all non-Japanese exporters are forced to remain idle, with the Japanese merchants monopolizing the business. It is understood that these same regulations will in the near future be extended to all North China ports—Tientsin, Chefoo, Weihaiwei—and Shanghai will be considered a foreign port, which means that import

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and export duty will be levied on all goods going into or coming out of Shanghai."

In conformity with this policy, the "Provisional Government in Peking" on March 2 this year announced that, beginning from March 11, exports of specified products such as eggs, walnuts, tobacco leaf, peanuts and peanut oil, apricots, cotton seed, vermicelli and macaroni, carpets, straw braids, salt and coal would be allowed by the North China Customs authorities only on producing an exchange certificate, showing that the necessary exchange at the official rate of 1s. 2d. has been sold to the Japanese-controlled "Federal Reserve Bank". This order also applies to goods going to Central and South China as well as to foreign countries, except Japan and "Manchukuo", when the rate would be par dollar per yen. To appreciate the significance of this trade control to the Japanese, it should be explained that the above "specified products" constitute the outstanding produce of North China, and their exports in 1937 amounted to approximately \$88,000,000, or about 40 per cent of the total export trade for all of North China. Little wonder it is that, shortly after the "Provisional Government in Peking" made this announcement, the British Chamber of Commerce in Shanghai lodged a strong protest, declaring, *inter alia*, "that the new measures are definitely discriminatory against British interests, and constitute a most flagrant violation of the Open Door".¹

¹ Owing to the existence of foreign concessions in Tientsin and Shanghai, this policy of export control initiated by the Japanese and their puppets will not prove totally effective.

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Import trade in the Japanese occupied areas is confronted with the same kind of restrictions. It is understood that the "Provisional Government in Peking" is planning to enact a law similar to the import and exchange law of "Manchukuo", which would tend to eliminate all Third Power trading interests in China and eventually bring about a Japan-Manchukuo-China economic bloc. The import and exchange law of "Manchukuo" promulgated in October, 1937, stipulated that (1) importers from non-Japanese sources must obtain permission from the Japanese government representative in "Manchukuo", whose decision will be based on the necessity for the importation of the type of goods proposed; (2) before buying foreign exchange, importers must give full details of the nature of the goods; and (3) before buying foreign exchange, foreign firms must submit full details of their business operations from 1935 to 1937. These regulations put the Japanese government representative in "Manchukuo" in full control of all foreign trade in that region, leaving the foreign firms to handle only those commodities which Japan cannot produce or supply. When these discriminatory regulations are introduced in North and Central China, they will inevitably destroy Western enterprises just as they have effectively done North of the Great Wall.

USE OF PUPPET RÉGIMES

While outwardly the Japanese military cliques have shown a lack of co-ordination in their plans and activities and have always disliked the big capitalists and financiers,

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they have all found it expedient to work hand in hand in the conquest of China. In pursuing the objectives of this involuntary alliance, the Japanese war-lords and their capitalist collaborators have created no less than three bogus régimes in China during the last two years, *i.e.* the Federated Autonomous Government of Inner Mongolia, the Provisional Government in Peking and the Reformed Government in Nanking. These puppet régimes, though enjoying no political influence among the Chinese, have been quite helpful to their Japanese masters in carrying out various economic policies, just as they have proved useful in exterminating Western interests. The position which the puppet régimes occupy in Japan's programme of Asiatic conquest, though little understood abroad, is becoming increasingly important. Controlled and operated by Japanese "advisers", the puppet officials can do nothing on their own initiative but merely obey instructions from their bosses. It is not the Chinese "Provisional Government in Peking" but the Japanese "advisers" who have planned and established the "Federal Reserve Bank" for North China. It is not the "Reformed Government in Nanking" but the Japanese "advisers" who have reduced Chinese tariff rates in favour of Japanese goods and have set up all sorts of barriers against Third Powers. It is not the "Federated Autonomous Government of Inner Mongolia" but the same "advisers" who have developed a virtual monopoly of the leather and woollen industries in Chahar and Suiyuan. It is the Japanese, not the bogus régimes, who are really responsible for instituting and enforcing the numerous discriminatory measures

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against Western interests and enterprises in the occupied areas.

But it is not so much what has already happened as what is in store for them that the Western nations must begin to reckon with. The puppet régimes in China have merely started to do small errands for the Japanese "conquerors", and it will not be long before they will be told to undertake more important missions—missions which will definitely and permanently shut the trade door in China to all non-Japanese parties just as in Korea and Manchuria. Thus far the foreign Powers have refused to deal with the puppet régimes, but as their policy of non-recognition is only of a negative nature and is not reinforced by any retaliatory or punitive action, they have suffered immense inconveniences and losses while on their part the Japanese have derived tremendous benefits from this political farce.

THIRD POWER PROTESTS

Disgusted with Japan's repeated violations of long-established treaty rights, the United States government on October 6, 1938, despatched a firm note of protest to the Tokyo Foreign Office. Similar protests were later made by France and Great Britain. In its communication to Japan, the American government demanded (1) the discontinuance of discriminatory exchange control and of other measures imposed in areas in China under Japanese control which operate either directly or indirectly to discriminate against American trade and enterprises; (2) the discontinuance of any monopoly or of any preference which would deprive American nationals of the right of undertaking any legiti-

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mate trade or industry in China or any arrangement which might purport to establish in favour of Japanese interests any general superiority of rights with regard to commercial or economic development in any region of China ; and (3) the discontinuance of interference by Japanese authorities in China with American property and other rights, including such forms of interference as censorship of American mail and telegrams and restrictions upon residence and travel by Americans and upon American trade and shipping.¹ To this protest, the Japanese government delivered a somewhat evasive reply in November, 1938, stating that the principles of Open Door and equality of opportunity, based on pre-war conditions, were no longer suitable and expressing the hope that the United States would soon find it possible to co-operate with Japan in creating a new East Asia.

No sooner had the Japanese reply become known than an avalanche of remonstrances came from all the foreign business organizations in China, particularly from those in Shanghai and Tientsin. Under the leadership of the British and the American chambers of commerce, eight national bodies in Shanghai joined in a united front and, perhaps for the first time in Far Eastern history, adopted a common programme of action. The joint manifesto issued by these national organizations in Shanghai requested their respective home governments to take immediate action to attain the following objectives :

1. Retention of all rights under the Shanghai land regulations and prevention of encroachment and

¹ For complete text of the American protest see Appendices.

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interference of the administration of the International Settlement of Shanghai and other foreign concessions in China.

2. Restoration of Hongkew, Yangtzepoo and Western areas of Shanghai to the full authority and control of the International Settlement.
3. Restoration of transportation facilities, including railways, shipping, commercial airways and motor highways with access to markets and mission centres in the Yangtze valley and other areas.
4. Prevention and abolition of all monopolies created in contravention of the Nine-Power Treaty and Open Door policy.
5. Restoration of properties of respective nationals to the rightful owners.
6. Discontinuance of censorship and other interference with mail, telegrams, cables, radios and other means of communication.
7. Immediate return of equipment and resumption of dredging operations necessary for the maintenance of Shanghai as a port for use of international shipping.
8. Recognition and maintenance of extraterritorial status of respective nationals and their interests.

It is now several months since the United States, Great Britain and France have lodged their protests with the Tokyo Foreign Office ; but they have obtained little satisfaction, if any, in regard to their legitimate demands. The question of economic retaliation against Japan, as many American and British residents in China have openly urged, cannot be postponed much longer ; for if the

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Third Powers remain passive and permit Japan to usurp all legitimate foreign interests and privileges in the Far East, they may some day find it utterly impossible to recover by force what they can still save by pacific but decisive means.

Chapter IV

CHINA'S ECONOMIC DEFENCE

MR. FRANK HEDGES, of the *Washington Post*, after making an extensive visit to China prior to the outbreak of hostilities, wrote: "A weary and somewhat discouraged world is today looking at China as one of the few bright and optimistic spots as a result of the great strides at unification and reconstruction made during the past several years". To see the economic developments in war-time China in their proper perspective, it may be well, at the outset, to review China's economic prospects before the Japanese resumed their invasion in 1937.

Prior to the war, a new China was already emerging. The country was rapidly becoming unified, and after more than a decade of civil strife the Central government in Nanking was enjoying greater influence and prestige than ever before. Government finance was being steadily centralized, and efforts to balance the national budget were becoming fruitful. Currency reforms had been carried out, while the nationalization of silver inaugurated in November, 1935, had given the country a degree of exchange stability never before witnessed in Chinese history. At least 112,000 km. of highways had been completed, while the

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total length of railways had increased from a few thousand kilometres in 1927 to nearly 12,000 in 1937. Railway construction was being pushed at an unprecedented pace, the Ministry of Railways having a five-year plan for building 8500 km. of new lines. For the financing of this construction programme, large loans had already been promised by various firms in Europe and America. Two of the most important lines, the Canton-Hankow railway and the Hangchow-Nanchang railway, had actually been finished ahead of schedule. Noteworthy progress had also been made in education. The number of children attending schools had increased from 8,000,000 in 1927 to 12,000,000 in 1937, while ambitious plans were being made to build sufficient schools to accommodate China's 60,000,000 children of school age within ten years. More than 100 colleges and universities had been established, many of which were as well staffed and equipped as any in England or America, so that there was no great need to send large numbers of students abroad except for highly technical courses. Special emphasis was being laid on rural reconstruction. The number of rural co-operatives had increased from a few hundred in 1923 to more than 26,000 in 1937, while a national network of farmers' banks had been inaugurated to alleviate financial stringency in the rural districts. With good crops in the majority of the provinces in 1936, China was quickly developing a volume of foreign trade in the following year that would have exceeded the record made in 1931, were it not for the Japanese attack on North China in July. In short, China was beginning to offer a fairly profitable market for

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Western industries and was thereby helping Europe and America to solve their economic problems. Most of the American firms in China were doing a thriving business during the first half of 1937; the United States, having jumped from the third to the first place in China's foreign trade since 1931, had good prospects of retaining that premier position if peaceful conditions were allowed to continue.

CHINA'S NEW ECONOMIC BASE

But the Japanese invasion has obliterated this hopeful panorama, at least for the immediate future. Instead of peace and prosperity, there is today such indescribable agony and devastation in the war-torn districts in China as only her courageous people know how to endure. Two years of war spreading over one-third of China have brought about terrific losses to her people. But if one-third of China has suffered destruction, the other two-thirds have found new life. Positive measures for strengthening China's economic front have not been neglected. On the contrary, those who have travelled in the interior provinces invariably report that the morale of the people is superb and that, undaunted by military reverses, the Chinese government and people alike are exerting their utmost in replenishing their losses with new energy and resources. The war has aroused amongst the Chinese an unparalleled interest in the development of the hinterland which, it is hoped, will provide a new and adequate base for conducting a protracted war against the invader. It is said that time and space are China's greatest allies in the

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present fighting. Verily in the vast south-western provinces the Chinese have found new hope for national regeneration. With an area twice the size of Japan and a population larger than that of the United States, the south-western provinces (Szechwan, Sikong, Yunnan, Kweichow, Hunan and Kwangsi) contain almost unlimited man-power and inestimably rich natural wealth, in addition to vast fertile lands which can produce sufficient foodstuffs to make China independent of foreign sources of supply.

The importance of this south-western area may be easily realised when it is remembered that in the six provinces of Szechwan, Kwangtung, Kwangsi, Yunnan, Kweichow and Hunan alone there is a total reserve of 15,535,000,000 tons of coal of all descriptions. The Ministry of Economics is now developing new mines in these provinces, and, with increased capital and improved methods, it is hoped that the coal output lost as a result of the Japanese occupation of the coastal provinces will be soon recouped. In Hunan, Kwangtung and Kwangsi may be found some 90 per cent of China's total reserve of manganese. In Yunnan, Szechwan and Kweichow is found China's sole copper producing region, turning out 480 tons a year. Lead and zinc are being mined in Hunan, Yunnan and Szechwan, which altogether produce about 6600 tons of lead and 13,000 tons of zinc a year. China's total reserve of tungsten is estimated at about 950,000 tons, of which Kwangtung and Hunan contribute 300,000 tons. In the production of tin, Yunnan ranks first, followed by Kwangsi, Hunan and Kwangtung, these three provinces being able to put out about 7400 tons a year. China also holds a leading position in the production

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of antimony. Of the world's output of 20,000 tons, China alone is accredited with 12,000 tons (or 60 per cent of the world total), and about 90 per cent of this output comes from Hunan. Gold and silver, as well as many precious stones, are found in equally rich quantities in China's south-west. With such an enviable supply of minerals the Chinese government may well take a confident attitude in its policy of carrying out a decentralizing and westward movement of industries. And such a development will have a great significance not only in domestic economy but also in China's foreign trade, just as the concentration and development of heavy industries in Central Asia and the Siberian hinterland by the Soviet government has brought about the significant economic repercussions in the Far East.

DEVELOPMENT OF NEW LIFE LINES

To develop this new economic base, inter-provincial highways are being built day and night to link the main south-western cities. Up to the summer of 1938, the Ministry of Communications had completed no less than 3224 km. of new roads in south-west and north-west China, besides repairing and modernizing many old caravan routes. Of these, the most important is the 850-km. highway from Kunming, capital of Yunnan province, to the border of British Burma. Built entirely by manual labour (as many as 200,000 workers were employed during the peak of this project) and running through mountainous terrain, the completion of this highway in six months' time may indeed be regarded as a "monument to the

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resourcefulness and determination of the Chinese people". Another important road which is being improved is the 4400-km. highway between Sian, capital of Shensi province, and Tahcheng in the western part of Sinkiang or Chinese Turkestan. From Tahcheng, the highway (known as the old silk route) extends into Soviet Russia and is connected with the Turk-Sib railway. These two international highways, in varying degrees of serviceability, now form the main arteries of transportation between free China and the outside world, and through these channels large quantities of war materials are being brought in to support China's war for independence.

Besides the importation of large fleets of motor trucks for use on these highways, the Ministry of Communications is organizing a large cavalcade of Chinese carts, drawn by animals and equipped with old rubber tyres, for short-distance transportation, to supplement the modern vehicles and to save gasoline.

But many of these motor roads are not built for heavy and speedy traffic—a factor of great importance in wartime—and in order to provide a better system of communication, the National Government of China, in co-operation with various provincial authorities, is rushing a comprehensive programme of new railways, including the Yunnan-Burma line (on which construction work began in November, 1938), the Hengchow-Nanning line, the Nanning-Chennankwan line, the Yunnan-Kweiyang line, the Chungking-Kweiyang line, the Paochi-Chengtu line, the Chengtu-Chungking line, the Chuchow-Kweiyang line, the Szechwan-Sikong line and the Liuchow-Kweiyang

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line. Altogether between 6000 and 7000 kilometres of railways are being surveyed or in the process of construction. The Hengchow-Kweilin section of 354 km., which will be extended to Nanning and eventually to the Kwangso-Annam border at Chennankwan, was completed in 294 days and was opened for traffic late in September, 1938. Thus Kweilin, the capital of Kwangsi province, is now connected by rail with Kinghua in Chekiang, a total distance of some 1150 km. The development of these lines of communication, coupled with the influx of large numbers of educated and progressive people from the seaboard, has stimulated many economic and social changes in the hinterland and in thus turning China's backyard into a great economic base. These new life lines will not only give China fresh energy in her struggle for emancipation but also provide a nucleus for rehabilitation after the war.

MACHINERY FOR WAR-TIME ECONOMY

Besides the development of communication facilities, in conjunction with this construction programme in the south-west the Chinese government has been promoting a series of industrial, commercial and agricultural improvements with a view to obtaining new ways and means for carrying on the war. For this purpose, several "war-time economy" organs have been established and are functioning with varying degrees of success. In addition to the National Resources Commission, the most important organs which have direct and specific responsibilities in improving and developing war-time economy are the Industrial and Mining Readjustments Commission and the Agricultural

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Readjustments Commission formed under the auspices of the Ministry of Economics, and the Trade Readjustments Commission organized by the Ministry of Finance in February, 1937. To finance the work of these three Commissions, the Ministry of Finance has already appropriated \$60,000,000—of which \$10,000,000 has been apportioned for industry and mining, \$20,000,000 for trade and \$30,000,000 for agriculture.

The functions of the Industrial and Mining Readjustments Commission are (1) to co-operate with the National Resources Commission in initiating and organizing government as well as private enterprises to exploit the natural resources ; (2) to introduce new technique in industrial and mining activities ; (3) to exercise control and supervision over certain industries whose operations might prove detrimental to the war of resistance ; and (4) to help in evacuating into safe areas industries and factories hitherto working in war-affected districts.

The principal functions of the Trade Readjustments Commission are (1) to promote the marketing abroad of native goods such as tea, raw silk, wood oil, bristles, leather and hides, and cotton ; (2) to provide and co-ordinate transport facilities for such goods so that their continued and large-scale exportation will not be inconvenienced or handicapped by the war ; (3) to control and restrict those foreign trade activities which might injure China's wartime economy ; (4) to limit the importation of luxuries, to formulate and impose prohibitive duties thereon ; and (5) to promote, through granting financial and other forms of aid, the exportation of certain surplus commodities from China.

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The Agricultural Readjustments Commission, with the technical assistance of the Central Agricultural Experimental Station, has done remarkable work in introducing agricultural improvements in the interior provinces, in promoting the cultivation of such staple products as cotton and tea, and extending credits to the peasants for financing new projects. With the guidance of this Commission, the productivity of the hinterland is being multiplied with the hope of developing a higher degree of self-sufficiency in foodstuffs and of obtaining a larger output of native products for foreign commodities or currencies to strengthen China's war-time financial structure.

AGRICULTURAL AND TRADE IMPROVEMENTS

Chief among these agricultural and trade improvements (the successful execution of which will have a vitalizing effect on China's foreign trade and international payments) are the introduction of better wheat and cotton seeds and improved silkworms into the south-western provinces, and the advancement of the wood oil and the tea trades. The production of wood oil in China is estimated to be more than 1,250,000 quintals a year, and, having almost no competition abroad, this product takes a leading position in China's export trade. Of the total output, between 60 and 70 per cent is sold to the United States. In 1937, for instance, the total value of wood oil shipped abroad amounted to \$89,840,000, of which the United States bought \$63,000,000 worth. With the help of the Trade Readjustments Commission and utilizing Hongkong as the chief outlet, China's wood oil exports further increased

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in 1938. The value of wood oil exported during that year through Hongkong alone amounted to \$71,535,969, most of which was sent to America.

Another important product in China's export trade is tea. It is well known that during the last few years Japan has been trying hard to oust China from the world's tea market. According to the International Tea Committee in London, Japanese and Formosan tea exports to London alone showed an excess of 6,000,000 lb. in 1937 over the total for the previous year. Rumours were being spread that, owing to war conditions, China could no longer be expected to produce and sell tea in large commercial quantities. To combat this trade war and to promote the exportation of tea on a national scale, a China National Tea Corporation, affiliated with the Trade Readjustments Commission, has been formed. Agents of this company have been buying up tea from Chekiang, Anhwei and Kiangsi for "centralized and controlled" exportation, and in 1938 China exported a total of 91,767,000 lb. of tea, compared with 89,634,000 lb. in 1937 or with 82,198,000 lb. in 1936, *i.e.* an increase of 2,133,000 lb. or 9,569,000 lb. respectively. Considering the unfavourable war conditions, these increases, though small, are quite significant, particularly when Japanese tea exports during the year 1938 show a decrease of 18,773,000 lb. as compared with the figure for the previous year. The importance of tea as a source of revenue to China may be easily realized when it is remembered that, in 1938, the total value of tea exported was more than \$33,000,000—an increase of more than \$6,000,000 over the total value for 1937.

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The following table, summarized and translated from *Ta Kung Pao*, Hongkong (April 8, 1939), shows the increases of China's tea exports during the last three years :

TABLE II
SHOWING CHINA'S TEA EXPORTS, 1936-1938

Kinds of Tea	1936	1937	1938
Red tea	Lb. 21,171,000	Lb. 25,498,000	Lb. 24,009,000
Green tea	34,377,000	33,951,000	50,959,000
Tea bricks	20,035,000	19,170,000	4,135,000
Others	6,615,000	11,015,000	12,664,000
Total	82,198,000	89,634,000	91,767,000

An increasing output of cotton is also expected in the south-western provinces of Szechwan, Yunnan, Kweichow and Kwangsi, where efforts are being redoubled to promote and increase cotton plantation. Thousands of piculs of cotton seeds have been shipped into the south-west from Honan and Shensi—famous cotton-producing regions of China—and, according to a survey made in November, 1938, there were already 540,000 *mow* of cotton fields in Szechwan, 81,000 *mow* in Yunnan, 43,000 *mow* in Kweichow and 12,000 *mow* in Kiangsi—a total of 676,000 *mow*.¹

Raw silk has always been a big item in China's export trade, the annual value of this export amounting to tens of millions of dollars. Hitherto Chekiang and Kiangsu have been the chief silk-producing centres in China, with Szechuan, Shantung and Kwangtung following in order of importance. But even before the war broke out, the Chinese authorities

¹ A *mow* is about one-sixth of an acre.

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had started to introduce improved silkworm eggs into West China, where new silk-producing areas are gradually developing to fill the position once held by Chekiang and Kiangsu.

It will be seen, therefore, that in sharp contrast with the havoc wrought in all the Japanese occupied areas, the interior regions which are still under Chinese rule have been going through a great, economic transformation, and, so far as war circumstances permit and through government planning and control, have been maintaining an uninterrupted flow of imports and exports with a view to avoiding unfavourable effects on domestic and war-time economy. When it is recalled that in the matter of foreign trade alone China has been able to come out, in net results, on the credit side throughout the first eighteen months of the war (despite the loss of many industrial centres and trade routes), the progress she has thus far achieved from her industrial, commercial and agricultural adjustments is rather encouraging.¹

FOREIGN EXCHANGE CONTROL

Simultaneously with the enforcement of state control of the leading import and export activities, the Chinese government has been carrying out a policy of foreign exchange control. It may be recalled in this connection that for months before the Japanese launched their military

¹ Chinese Customs statistics show that free China had a favourable trade balance during 1938, averaging about £340,000 a month, while Japanese-controlled districts had an unfavourable trade balance of about £405,000 a month, which increased further after the fall of Wuhan and Canton.

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drive, they had tried, and partially succeeded, to smuggle out silver coins and bars from North and Central China with a view to undermining the Chinese currency system. With the nationalization of silver in November, 1935, the Chinese government successfully circumvented the Japanese currency onslaught and for nearly two years felt no great need for state restriction of foreign exchange business.

It is also learned that, prior to the outbreak of hostilities, the Chinese Ministry of Finance had secretly set up a special committee to study and formulate plans to cope with war-time conditions and requirements. Subsequent events have disclosed that these plans were worked out with great care and have proved effective in many respects, though they are not being enforced in their entirety. Even before the commencement of hostilities, the Chinese had adopted a number of measures to boost the export of raw materials and semi-manufactured goods so as to procure and stock up foreign exchange for the inevitable struggle against Japan. Due to these far-sighted measures, China's foreign trade and foreign exchange reserve have shown remarkable expansion in recent years. It may be recalled that China had hardly enjoyed any favourable trade balance since 1875, but beginning from 1933 these unfavourable trade balances have been steadily reduced and in certain months of the year China has even enjoyed favourable trade balances. Since the summer of 1937, and despite war conditions, China has managed to sell far more than she has bought. In the second half of 1937, for example, China's favourable trade balance amounted to more than \$40,000,000.

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This propitious phenomenon continued during the first five months of 1938, when the favourable trade balances totalled about \$75,000,000. Not until the middle of 1938, particularly not until the fall of Wuhan and Canton, did China again suffer from unfavourable balance of trade, at least according to Chinese Customs returns.¹

However, the adoption of a strict policy of foreign exchange control became quite imperative in March, 1938, when the Japanese inaugurated a bogus "Federal Reserve Bank" whose uncovered note issues and insidious operations were designed to cripple the Chinese legal tender system and thereby endanger China's financial and credit standing. In order to prevent the Japanese and their puppets from getting foreign currencies through the sale of Chinese national notes forcibly collected in the occupied areas, the Chinese Ministry of Finance, on March 14, 1938, promulgated a set of regulations regarding foreign exchange control. It was expected that these regulations, when fully carried out, would also reduce the flight of capital to foreign countries and help balance China's international payments by restricting the foreign exchange demands of import firms in China.

Among the measures now being enforced by the Chinese government in order to protect its specie reserve and foreign exchange supply are : (1) government absorption of foreign exchange and centralized control of foreign exchange

¹ Prior to the fall of Wuhan, Chinese-controlled regions handled as much as 25 per cent of the total import trade and 40 per cent of the exports for the whole country. These percentages are again increasing during the first part of 1939.

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allocations for trade and other legitimate demands ; (2) negotiation of credit loans with sympathetic foreign nations on the strength of Chinese cash reserves already deposited abroad ; (3) government transactions with foreign firms for the exchange of staple products or execution of barter agreements ; (4) restricting the withdrawal of bank deposits ; and (5) limiting the outflow of Chinese national currency.

It is true that this policy of exchange control has not been and cannot be enforced with complete success, owing to the peculiar financial situation created by the presence and influence of foreign banks in China. While during the earlier period of enforcement the Chinese government met with unreserved and effective co-operation from the foreign banks, particularly those in Shanghai, difficulties developed later on and have rendered continued collaboration in this policy of foreign exchange control increasingly difficult. Due to the growing demand for foreign exchange, a "black market" for exchange transactions has arisen, and through this channel numerous demands, legitimate as well as illegitimate, have been met outside the Chinese machinery for foreign exchange control. However, with the inauguration in March this year of the £10,000,000 Chinese currency stabilization fund (half of which is to be advanced by the Chartered Bank of India, Australia and China and the Hongkong and Shanghai Banking Corporation and the other half by the Bank of China and the Bank of Communications), Chinese currency will be further stabilized and the demand for foreign exchange for private hoarding and speculation will probably decrease with time.

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HELP FROM OVERSEAS CHINESE

In the remittances from overseas Chinese, the Chinese government has found a most heartening source of foreign exchange and financial support for its war-time requirements. The steady flow of remittances from abroad year in and year out has been an important factor in helping China balance her international payments, and, since the outbreak of war, overseas Chinese, for patriotic and business reasons, have multiplied their remittances to the home-land, whereas Japan's invisible exports (such as oceanic shipping, insurance business, tourist trade and interest from overseas investments) have been badly disrupted by her own aggressive tactics. Chinese bankers estimate that the total of overseas Chinese remittances amounts to nearly \$300,000,000 a year in peace-time, varying in accordance with business conditions in regions where large Chinese communities exist. Since July, 1937, millions of dollars have been sent back for relief work and for purchasing National Salvation Bonds. The total of overseas remittances in 1938 is estimated to have reached \$600,000,000, which is a big increase over the total for a normal year, though the high exchange rate today must be held responsible for a portion of that increase. It is obvious, then, that China has a very powerful ally in her chain of overseas communities, without whose support she might not have been able to keep up such an impregnable economic front.

INDUSTRIAL MOBILIZATION

Generalissimo Chiang Kai-shek once declared that the basis of success in prolonged resistance against Japan is not

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to be found in the big cities but in the villages all over China. After the Japanese seizure of Shanghai and other industrial centres where the overwhelming number of Chinese factories were concentrated before they were destroyed, China was confronted with the acute problem of rebuilding her industrial defence lines. While for some time it was assumed that new industrial centres might be safely developed in such interior cities as Chungking and Kunming (whence, indeed, nearly 350 Chinese factories have been moved from East and Central China since the war), the continuous bombing raids of the Japanese air force have rendered it inexpedient to encourage further this policy of erecting industrial bases at those points. To remedy this situation and in line with the Generalissimo's observation, the Chinese government in July, 1938, inaugurated an Industrial Co-operatives Movement. The purpose of this is to build new industrial bases in the scattered villages through the formation of producers' co-operatives, which are to undertake industrial production to satisfy local needs as well as to form an industrial defence system more or less immune from Japan's military attack and economic offensive.

Sponsored by the Executive Yuan of the Chinese government, the Industrial Co-operatives Movement has been granted an initial capital of \$5,000,000, out of which loans ranging from \$500 to \$3000 (or even \$10,000 in special cases) are being extended to farmer-producers' co-operatives to finance various small-scale industries. A large number of experienced co-operative workers and modern trained engineers, including several foreign experts, are being

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employed to promote this Movement, which, it is hoped, will result in the establishment of 30,000 producers' co-operatives within two years. Nearly 300 units, representing 50 different industries and supporting about 30,000 refugees, have already been organized, while up to the end of March (1939) a total of \$1,200,000 in loans has been granted to the various societies. To facilitate the carrying out of this industrial mobilization programme, the Movement, with head office in Chungking, has set up four directing agencies—in Paochi, Shaoyang, Kanchow and Wanhsien—around which branch units will be gradually organized. From these four regional centres—all of which have been strategically selected—co-operative workers and engineers are sent to the surrounding districts to enlist the support of the local authorities, to survey the natural resources, to conduct educational work amongst the peasants, and to help them organize co-operative societies.

It is hoped that the extension of the Industrial Co-operatives Movement will, to a considerable extent, help solve the enormous refugee problem now prevailing all over China. With the equipment and materials evacuated from the occupied areas or those newly purchased by government loans, the producers' co-operatives in the various towns and villages can gradually absorb and train large numbers of war refugees to make a variety of daily necessities for local consumption (instead of leaving the rural population dependent upon goods from the Japanese-controlled cities), and eventually to sell the products on a co-operative marketing basis, thus enabling the refugees to become self-supporting.

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On the basis of recent experience and the available raw materials in the interior provinces, no less than six categories of industrial work can be pursued by the producers' co-operatives : (1) textile manufacturing such as cotton spinning, weaving, ginning, silk reeling and weaving, tailoring, making of garments and uniforms ; (2) food production such as flour and rice mills, making of biscuits, fruit and vegetable canning ; (3) chemical work such as making of matches, candles, paper, drugs, soap, pottery and glassware, batteries, alcohol and medical supplies ; (4) metal trades such as metal founding, making of hand tools, small arms and munitions, farm implements, repair shops ; (5) educational supplies and equipment such as stationery, pens and pencils, printing of textbooks, maps ; and (6) miscellaneous industries such as making of bricks and tiles, straw-plaiting, leather-work and shoe-making.

It may be seen, therefore, that the Industrial Co-operatives Movement intends to utilize what China still has (man-power, natural resources, limited but unused capital, and experienced and patriotic social workers), to develop a new type of industrial economy to replace the productive power already impaired by the Japanese invasion, and, through the adoption of what may be rightly called guerrilla tactics in economic warfare, to render further Japanese onslaught ineffectual.

SUPPORT FROM THE WEST

For a year and a half China has been fighting Japan single-handed, and not until the granting of export credits by the American Export-Import Bank and the Export



"News"

Thousands of tons of scrap iron have been collected from the ruined industrial districts of Shanghai and shipped to Japan to feed her ever-hungry war industry.

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Credits Department of the British government in December, 1938, did she receive any large-scale material support from the Western Powers. Indeed China would have found her task of resistance much easier had it not been for the lamentable fact that her opponent has for more than a year been able to count upon American and British sources for replenishment of war supplies such as aeroplanes, iron, copper, oil, automobiles and motor accessories. Consciously or unconsciously, the United States of America (more than any other Third Power) has served as Japan's unlimited arsenal and, together with Great Britain, has been an indirect financial aid to the recognized aggressor. Had the United States government, which has openly declared its sympathy with China, refrained from helping replenish the Japanese war chest by instituting an embargo on Japanese goods, and had it prohibited its armament industries from dealing with Japan, the present aggression on the Asiatic continent would have met with serious difficulties long ago. If they had not been able to get 54·4 per cent of their war materials from the United States and 17 per cent from the British Empire, the Japanese war-lords would have been compelled at least to limit their mad adventures, and thus the suffering and destruction in China might have been greatly curtailed.

CHINA'S CHANCES TO WIN

Happily, an increasing number of people in Europe and America are beginning to realize the mistakes they have made, and while they may not yet feel prepared to help China openly or directly, they have at least started to

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agitate against giving any further aid to Japan. Foreign observers hardly need to be reminded that, in the long run, economic rather than military factors will decide the final outcome of the present upheaval in the Far East. The question between China and Japan (one that is becoming increasingly appreciated abroad) is not so much which side possesses the stronger army but which has the mightier staying power. While it is true that Japan has not yet been crushed on the economic front, it is no exaggeration to say that, from the standpoint of endurance and resources, the ultimate result of the conflict at the time of this writing appears far more favourable to China than it is to her enemy. As a German military adviser has well said :

“ Militarily, Japan can never win the war, as she has utterly failed and has no chance to annihilate the Chinese forces ; economically, she is losing the war because of her ruinous military expenditures and the disruption of her peace-time trade and industry ; and politically, she has already lost the war, having achieved little success in her attempts to establish political suzerainty in the occupied areas ”.

On the other hand, China, the same foreign observer declared, has not been defeated but is growing in military strength ; economically, she may yet win the war if she continues to develop her vast and rich hinterland ; and politically, she has already won the war inasmuch as she has become more united than ever before.

Chapter V

JAPAN'S LOSSES DURING THE "CHINA INCIDENT"

DURING the last fifty years Japan has fought three major wars—first against China in 1894-5, then against Russia in 1904-5, and lastly as one of the Allied Powers against Germany during the World War. From all of these Japan has reaped good profits, acquired new territories, obtained industrial and trade expansion and gained international prestige. War has thus appeared to her leaders and people as a beneficial instrument of national policy, and little wonder it is that war has been persistently developed and regarded in the land of the Mikado as a lucrative national occupation. Indeed, to the contemporary rulers of Japan, "war is the father of creation and the mother of culture, for it stimulates the individual as well as the nation to creative efforts".¹

However, Japan's present war on China, intended to last only three to six months but still far from having been won after almost two years' duration, is not likely to prove so rosy and profitable. On the contrary, it is imposing a colossal burden on the Japanese people just as it is

¹ From a pamphlet issued by the Japanese Ministry of War in 1934.

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becoming disillusioning to many of Japan's far-sighted leaders. Hitherto the Japanese have fought only short and decisive wars, and have hardly tasted the full savour of a protracted campaign. In the present invasion of China their eyes are being opened and they are discovering that to conduct a large-scale war successfully economic resources and endurance are at least as vital as military preparedness.

JAPAN'S ECONOMIC LIMITATIONS

To ascertain Japan's ability to support a long war, it would be well to begin with an examination of the basis of her national economy. Japanese industries, especially the large-scale and heavy industries, are dependent upon foreign sources for their raw materials and foreign markets for consuming much of what they produce. The iron and steel industry in Japan, for example, imports about 90 per cent of the iron ore and nearly 50 per cent of the pig-iron used. According to the Mitsubishi Economic Research Bureau, the iron ore deposits in Japan total about 90,000,000 tons, and the coal deposits are estimated at 20,000,000,000 tons. These deposits can in no way be compared with the rich resources of the United States, Great Britain, Germany or France. The petroleum supply in Japan is even smaller, and cannot stand comparison with the big oil-fields in other parts of the world. This scarcity is not limited to iron, coal and oil but also extends to most other minerals, which are found in Japan only in small and scattered deposits. Both the cotton and the woollen industries depend upon foreign sources for the overwhelming percentage of their raw materials, principally from the United States, Australia,

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India and China. Raw materials and materials for further manufacture form approximately 70 per cent of the value of Japan's imports in peace-time, with cotton occupying almost 30 per cent of her total imports. As much as 75 per cent of the normal petroleum consumption in Japan must be bought from abroad, while almost all the nickel, antimony, phosphates, nitrates, pulp and rubber required in the country must come from foreign shores.

Moreover, Japan must sell abroad practically all that she produces and manufactures in order to keep her wheels of industry moving. The domestic market is limited in value and extent. Between 70 and 80 per cent of the raw silk produced in Japan is exported to foreign countries, and it constitutes about 40 per cent of her total export trade. The same is true with Japanese textiles, although a fair portion of them are used by her own people.¹ Cotton textiles constitute 25 per cent of her total exports. In fact, on raw silk and textile products rests the burden of balancing her international payments, and so any restrictive measure, such as an embargo on the part of the democratic Powers, would bring about a serious effect upon Japan's economic position. China and the United States are the leading markets for Japanese exports in normal times, for the two countries combined consume from 60 to 70 per cent of Japan's exports, and on their goodwill depends the development of Japanese export trade.

Because of her dependence upon foreign raw materials,

¹ In 1936 Japan's imports of raw cotton were valued at Yen 850,000,000, of which Yen 500,000,000 were re-exported as piece goods or other finished products.

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Japan has always been faced with the problem of devising ways and means to balance her international accounts. According to Dr. J. E. Orchard, in only six of the thirty-three years between 1895 and 1930 has the balance of trade been favourable to Japan, and four of the six years were the extraordinary war years from 1915 to 1918 when Japan was given an unusual opportunity to supply markets normally held by European and American firms. But since 1919 imports have exceeded exports in every year, and by very large amounts.

"This unfavourable trade balance for Japan is part of a vicious circle of economic endeavour wherein the poverty of resources necessitates the import of raw materials; the excess of imports stimulates industry to develop an export trade in order to balance the account; and this development of industry for supplying export products increases the import demand still further."¹

As a partial remedy for her continual adverse trade balances, Japan has been trying her utmost to develop the invisible trade, such as oceanic shipping, insurance business, tourist trade and overseas investments. But the net income derived from these invisible exports has rarely been sufficient to offset her unfavourable balance in the visible trade. Thus it has been necessary for Japan to resort to the floating of foreign loans to meet her increasing deficits in international payments. According to Dr. Orchard, Japan has borrowed abroad Yen 2,500,000,000 since 1870, only Yen 1,000,000,000 of which had been repaid by the end of 1929—two years before she launched her costly Manchurian adventure.

¹ J. E. Orchard, *Japan's Economic Position* (published by McGraw-Hill Book Company, Inc., New York, 1930), p. 420.

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Again, throughout the first eighteen months of the present war Japan has been greatly dependent upon imports for her war materials. According to the Chinese Council for Economic Research in Washington, D.C., Japan in 1936 and 1937 secured about 95 per cent of her oil supplies from the United States, Dutch East Indies and British Borneo ; at least 90 per cent of her iron and zinc ores from British Malaya, China, Philippine Islands, British India, Australia, the United States and Great Britain ; 90 per cent of her pig-iron from the United States, Manchuria and British India ; 96 per cent of her copper from the United States and Canada ; almost 70 per cent of her lead from Canada, British India, Australia and the United States ; 89 per cent of her tin from the Straits Settlements, China and Dutch East Indies ; 84 to 87 per cent of her zinc from Australia, Canada and the United States ; about 90 per cent of her aluminium from Canada, Norway, Great Britain, Switzerland and the United States ; over 96 per cent of her automobiles and automobile parts from the United States, Germany and Great Britain ; and 98 per cent of her engines and machinery from the United States, Germany and Great Britain.¹ From these data it will be seen that Japan has been carrying on her war on China largely with foreign materials and supplies, particularly from the United States and the British Empire. While morally and legally these two Powers have condemned the Japanese invasion of China, they have, perhaps unwittingly, been made partners in aggression to a very large measure.

But with the intensification of foreign opinion against

¹ From "Economic Notes", in *Amerasia*, New York, July, 1938.

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Japanese imperialism and the consequent extension of the boycott movement, Japan can no longer look to the Western nations for unlimited supplies of the sinews of war.¹ To combat her poverty in essential materials, she has found it imperative to restrict civilian consumption of an increasingly long list of commodities, to limit the importation of raw materials so as to reduce her foreign exchange obligations, and to encourage savings and thrift campaigns among her people. In a statement issued on November 3, 1938, the Japanese finance minister openly admitted the necessity of enforcing economic control for a *long* time.

"The Government," declared former Finance Minister Ikeda, "will maintain and strengthen their past policies for the promotion of production, development of natural resources, control of the distribution and consumption of commodities, control of commodity prices, encouragement of savings, increase of exports, encouragement of inventions and other undertakings. It is not yet time when the people can expect relief from the incidence on them. The nation will have to tolerate various sorts of economic inconveniences for a long period."

As a result of her policy of cutting down imports, Japan (including Saghalien, Korea, Formosa and the South Seas Mandated Islands) has succeeded in bringing about a favourable trade balance for 1938—the first in twenty years—amounting to Yen 60,543,000 as compared with an unusually large adverse trade balance of Yen 635,906,000 for 1937. However, this change has been

¹ Chiefly due to the boycott movements in the West, Japan's export trade in 1938 decreased by Yen 422,050,000, or about 13 per cent, as compared with the total for the previous year.

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effected only by a very drastic and organized reduction of imports during 1938, which, according to the *Oriental Economist* of April, 1939, showed a decrease of Yen 1,118,498,000, or about 28 per cent from the total imports for the previous year. The remarkable reduction of imports during 1938 can be attributed to the severe restrictions which the Japanese government has imposed on all non-munition materials for the purpose of improving its position in international payments. For example, imports of raw cotton decreased by Yen 413,000,000 to nearly half what they were in 1937; imports of wool were lower by Yen 240,000,000, or 68 per cent; wood pulp by Yen 75,000,000, or 63.9 per cent; lumber by Yen 37,000,000, or 56.5 per cent; and crude rubber by Yen 48,000,000, or 48.3 per cent.

And these imports comprised the very materials which Japan needed for her peace-time industries. Because of this enforced economy, Japan's peace-time industries can now operate at only half, some even less, of the pre-war production rate (the textile industry, for instance, showed a 30 per cent decrease in exports during 1938 as compared with 1937), and the market value of the leading industrial shares in Japan, as indicated in the *Japan Year Book* for 1939, dropped by nearly 30 points during the year between July, 1937, and the middle of 1938. Owing to the shortage of raw materials, numerous small-scale and light industries (which held a very important place in Japan's economic life before the war) have had to close down, throwing thousands of workers out of employment. It is true that the boom in the war and heavy industries has enabled them

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to absorb a large portion of the unemployed, but still, due to the lack of training and other difficulties, tens of thousands of people are without work. In foreign circles the number of unemployed in Japan at the time of this writing is estimated to be between 800,000 and 1,000,000, although Japanese official sources report that at the end of 1938 only 341,745 people were facing unemployment, which probably included only those who had registered.

Nor has the revenue from her invisible trade during the present hostilities been of much help in maintaining Japan's economic equilibrium. Both her shipping and tourist businesses have been badly disrupted by the war, while overseas investments (of which about 90 per cent are confined to China, including Manchuria) have brought little return, owing to unsettled conditions in the Orient. According to the London *Financial News*, Japan's normal income from shipping amounts to approximately Yen 200,000,000 a year (net revenue from shipping in 1936 was Yen 193,862,000), but it is estimated to have shrunk to considerably less than one-half, if not to one-third, of that amount, as the war has compelled Japan to divert almost half of her oceanic freighters to emergency purposes. Again, there has been a decline in passenger income on all the Japanese shipping lines, due to their increasing unpopularity abroad and the tightening of customs and police control in Japanese ports. According to the reports of the Japan Tourist Bureau, foreign tourists have decreased by about 46 per cent since the outbreak of hostilities, and their foreign exchange has greatly dwindled as a credit item in Japan's international settlements. When it is realised that in normal

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times shipping forms the largest item in Japan's invisible exports and that some 30,000 to 40,000 tourists visit the country every year, giving her a revenue running into Yen 100,000,000 as in every one of the three years between 1935 and 1937, the losses in these two trades must have had a crippling effect on Japan's financial standing.

JAPAN'S GROWING NATIONAL BUDGET

To realise the alarming costs of Japan's continental expansion it is only necessary to review her national budgets for the period from 1931 to 1940. As indicated in the following table, summarized from the *Japan Economic Year Book*, Japan has more than doubled her general budget in a period of nine years !

TABLE III
SHOWING JAPAN'S GENERAL BUDGET INCREASES, 1931-1940

Year	Total Expenditures, Yen
1931-32	1,467,875,000
1932-33	1,950,141,000
1933-34	2,254,662,000
1934-35	2,164,004,000
1935-36	2,206,478,000
1936-37	2,282,176,000
1937-38	2,981,691,000
1938-39	3,514,521,000
1939-40	3,694,666,000

The above figures, let it be remembered, do not include Japan's increasing expenditures for rearmament and the "China Incident" expenses. For example, besides the

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total expenditure of Yen 3,514,521,000 for the general account during the fiscal year 1938-39, the Japanese government had to appropriate a sum of Yen 4,850,000,000 for the special account of extraordinary military expenses covering the same period. In March, 1939, the Japanese Diet adopted a general budget amounting to Yen 3,694,666,000 for the fiscal year 1939-40, and in addition passed an extraordinary budget amounting to Yen 4,605,000,000 for financing the "China Incident" up to the end of next January. Including several other supplementary budgets approved by the Diet at the same time, a grand total of Yen 9,574,355,000 will be required during the coming fiscal year—which is a new record in Japanese government finance. Mr. Ishiwata, the present finance minister, has openly announced that taxation has to be further increased with the object of raising an additional Yen 180,000,000 revenue in 1939-40, while, according to a Domei News Agency report of March 15 this year, deficit covering bonds to the value of Yen 5,925,000,000 will have to be issued during the next twelve months.

The tremendous cost of Japan's military operations in China may be better realized when it is compared with what she spent during the Russo-Japanese War of 1904-5. The Russo-Japanese War, which lasted for sixteen months, cost Japan about Yen 1,720,000,000. Although two-thirds of this sum were derived from loans negotiated in England and America, Japan found herself badly exhausted before the Treaty of Portsmouth was signed. It is generally estimated that, up to the end of 1938, the "China Incident" has cost Japan no less than Yen 7,390,000,000 (Yen

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2,540,000,000 for 1937 and Yen 4,850,000,000 for 1938), which is to be augmented by another appropriation of Yen 4,605,000,000 during the coming fiscal year. In other words, the aggregate cost of the "China Incident" to Japan will reach Yen 11,995,000,000 by January, 1940, that is, six to seven times the Japanese share of the Russo-Japanese War costs.

INCREASE IN MILITARY AND NAVAL EXPENDITURES

Financially, Japan's attack on China did not start in the summer of 1937 but several years before; for since the Mukden Incident of 1931, Japan has been paying for her conquest of Manchuria (amounting to Yen 1,555,000,000 up to the end of 1938, as reported by Finance Minister Ishiwata on March 3 of this year), and has been increasing her national defence expenditures. The annual expenditures absorbed by the Japanese fighting services have increased from 31 per cent of the national budget for 1931-32 to 65 per cent for 1937-38, and are continuing to grow like a snowball. Since the "Mukden Incident" of 1931 and up to the fiscal year 1937-38, a total of Yen, 8,613,000,000 has been spent on the Japanese army and navy.¹ (See Table overleaf.)

While, during the Russo-Japanese War, England and the United States were sympathetic with the then Rising Sun, they are today not at all inclined to aid Japan to complete her conquest of China. Japan has now to rely almost exclusively on domestic sources to finance her operations on the Asiatic continent. Foreign financial experts estimate

¹ From *China and Japan* (published by the Royal Institute of International Affairs, London, 1938), p. 108.

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TABLE IV
SHOWING INCREASE OF JAPAN'S MILITARY AND NAVAL
EXPENDITURES, 1931-1938

Year	Army and Navy Expenditures, Yen	Total Expenditures, Yen
1931-32	454,000,000	1,476,000,000
1932-33	686,000,000	1,950,000,000
1933-34	851,000,000	2,254,000,000
1934-35	942,000,000	2,163,000,000
1935-36	1,022,000,000	2,206,000,000
1936-37	1,078,000,000	2,282,000,000
1937-38	3,580,000,000	5,473,000,000
Total .	8,613,000,000	17,804,000,000

that Japan can possibly raise war loans to about Yen 5,000,000,000, although Mr. Kaya, one-time Japanese finance minister, claims that it would not be difficult for Japan to raise Yen 10,000,000,000 to Yen 20,000,000,000 for her present war in China, while Mr. Yata Noda, director of the Noda Economic Research Bureau, even more optimistically asserts that

“in any future war, if it is carried out on the scale not exceeding that of the World War, Japan can spend annually Yen 13,200,000,000 judging from her national wealth, Yen 12,000,000,000 from her national annual earnings, and Yen 11,500,000,000 from her annual savings continuously for four years”.

But how successful has the Japanese government been in raising war loans? Of the Yen 7,390,000,000 appropriated for financing the “China Incident” during the

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fiscal years 1937-38 and 1938-39, only about Yen 400,000,000 was obtained from tax increases, while about Yen 7,000,000,000 had to be secured through the issuance of war bonds, not all of which have yet been subscribed.¹ During the coming fiscal year, it is estimated that another sum of approximately Yen 6,000,000,000 will have to be raised through the issuance of government bonds.

The Japanese capacity for "digesting" war bonds must be approaching the "saturation" point, for as early as September, 1937, the customary method of selling bonds by public subscription had to be dropped, and bonds issued since that time have been turned over *en bloc* to the Bank of Japan for disposal in the best way it can, chiefly through compulsory allotments among the various financial institutions in the country. But still, a good portion of the bonds taken over by the Bank of Japan—the most powerful financial organization in the island kingdom—could not be sold. Government bonds held by the Bank of Japan on December 24, 1938, were reported to have reached a total of Yen 1,900,274,000, according to the *Osaka Mainichi Shinbun* of March 3, 1939, and this total means an increase of 68.7 per cent over the total for the previous year. According to the *Oriental Economist* early this year, since August, 1937, new bond issues to finance the "China Incident" have totalled no less than Yen 5,630,000,000. These funds have been found almost entirely by the large financial institutions, whose bond

¹ The Domei News Agency on January 14, 1939, announced that during 1938 the Japanese government issued Yen 4,330,000,000 of bonds, of which 3,651,000,000, or 84.3 per cent, has been absorbed.

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holdings have increased over this period by the following amounts :

TABLE V

Increase of Bond Holdings	Yen
Bank of Japan . . .	735,000,000
Commercial banks . . .	1,166,000,000
Special banks . . .	329,000,000
Savings banks . . .	238,000,000
Clearing banks . . .	1,678,000,000
Trust companies . . .	10,000,000
Deposit bureau . . .	852,000,000
Total . . .	5,008,000,000

It will be seen from the above figures that the Japanese people have been asked to shoulder burdens far greater than they can actually bear.

INCREASE IN NATIONAL DEBTS

Even in peace-time Japan has to spend a good portion of her annual income to meet her national debt obligations. In 1931-32 the cost of her national loan services amounted to nearly Yen 214,000,000 ; by 1937-38 it had grown to a total of Yen 411,000,000 ; and at the beginning of 1939 it had increased to Yen 582,000,000—her national debts having increased to more than Yen 16,222,000,000 (domestic as well as foreign loans), which is an increase of some Yen 5,670,000,000 over the total in June, 1937.¹ Because of this precarious financial situation, the value of Japanese

¹ Sze Chi-tong, "An Analysis of Japan's War-time Economy", in the *Financial Review* (Chinese), Hongkong, April, 1939.

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bonds on the London market fell by nearly 40 per cent during the nineteen-month period between June, 1937, and December, 1938.¹ According to certain Japanese financiers, Yen 10,000,000,000 of debts would be the highest safe limit for the country to bear, but as shown in the following table, summarized from the *Japan Economic Year Book*, this limit has already been exceeded, while the *per capita* debt burden has increased from less than Yen 100 in 1931 to more than Yen 200 in 1938 :

TABLE VI
SHOWING INCREASE OF JAPAN'S NATIONAL DEBTS

Year	Amount, Yen
1931-32	6,002,000,000
1932-33	6,548,000,000
1933-34	7,821,000,000
1934-35	8,650,000,000
1935-36	9,580,000,000
1936-37	10,395,000,000
1937-38	11,892,000,000
1938-39	16,222,000,000

DEPLETION OF SPECIE RESERVE

Students of public finance agree that Japan has little gold to meet her increasing international obligations, and is therefore in no position to finance a long war. Inouye, a prominent Japanese financier, once declared that Japan requires no less than Yen 300,000,000 a year to rehabilitate

¹ Sze Chi-tong, "An Analysis of Japan's War-time Economy", in the *Financial Review* (Chinese), Hongkong, April, 1939.

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her credit standing in the counting-house of the world. This requirement must have grown by leaps and bounds during the present hostilities. Japan's gold reserve was greatly reduced as early as 1937, when heavy shipments were sent abroad to cover an unusually adverse trade balance and to maintain the stability of her currency (ex-Finance Minister Ikeda reported Yen 860,000,000 worth of gold had been shipped abroad during 1937). In August, 1937, the old gold reserve in the Bank of Japan was valued at Yen 488,000,000.¹ In the following month, the Japanese government adopted a face-saving measure, ordered a revaluation, and by a mere book-keeping feat, turned this gold reserve into approximately Yen 1,262,002,000, of which Yen 801,002,000 were left in the Bank of Japan, while the remainder, Yen 461,000,000, was deposited in the Ministry of Finance as a "special fund".² In July, 1938, the Japanese government decided to release Yen 300,000,000 of the specie reserve in the Bank of Japan for establishing a foreign exchange fund. This specie is to be converted gradually into foreign currencies, and will be worked in a revolving manner to facilitate the importations of materials needed for the manufacture of goods for export. The gold of this exchange fund will be shipped abroad and converted into dollars and pounds, and will be deposited in the New York branch of the Yokohama Specie Bank. The Bank of Japan will inspect applications for foreign exchange and, when conditions warrant, will

¹ Gunther Stein, "How Strong is Japan?" in the *Austral-Asiatic Bulletin*, Melbourne, December-January issue, 1938-39.

² *Ibid.*

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order the Yokohama Specie Bank to lend funds to the applicants against securities. Funds so advanced must be refunded in foreign currencies within four months. It is thought that if these funds are used in a rotating manner once every four months, a maximum of Yen 1,200,000,000 of raw materials can be imported into Japan every year.

From the foregoing it will be seen that the gold and bullion reserve of the Bank of Japan now amounts to only Yen 501,000,000, or to be exact, Yen 501,287,020, as stated in its balance-sheet of December 31, 1938.

In view of this heavy drain, Japan has been trying to improve and expand gold production in order to strengthen her specie reserve. In 1936 her gold production was valued at Yen 165,000,000, of which Yen 85,000,000 came from Japan proper, Yen 65,000,000 from Korea and Yen 15,000,000 from Manchuria. Japan's new policy of increasing gold production is expected to result in an annual output of Yen 200,000,000 in 1937, Yen 300,000,000 in 1938 and Yen 500,000,000 in 1939. It is difficult to say to what extent these high expectations are being fulfilled.

On the other hand, unmistakable signs of currency inflation have already appeared in Japan. The notes issued by the Bank of Japan (which has the exclusive right of issuing bank-notes for the whole of Japan except Taiwan and Chosen, where the Bank of Taiwan and the Bank of Chosen respectively have similar privileges), rarely above Yen 1,400,000,000 in pre-war days, have been increasing by leaps and bounds. In April, 1937, the notes issued by the Bank of Japan amounted to Yen 1,444,371,000, and beginning from October that year, they were never below

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the Yen 1,900,000,000 mark. By the spring of 1938 they had increased to Yen 1,986,291,000, and in November of the same year they exceeded the legal limit by more than Yen 58,000,000. The total of notes issued by the Bank of Japan at that time was Yen 2,259,000,000, as against the legal limit of Yen 2,201,000,000.¹ On January 5 this year, this note issue, according to the Tokyo *Chugai Shogyo Shimpo*, "has even exceeded the record of the 1927 panic days—more than Yen 2,600,000,000".

Moreover, the note issues of the Bank of Chosen and the Bank of Taiwan have almost doubled as compared with the figures for June, 1937. According to the *Oriental Economist*, the total of notes issued by the Bank of Japan, the Bank of Chosen and the Bank of Taiwan increased from Yen 1,799,000,000 in 1931 to Yen 3,477,000,000 in December, 1938—an increase of 100 per cent in a period of seven years. Backed by about 49 per cent of gold in the summer of 1937, the Japanese currency, it is estimated, had a coverage of only 17 per cent at the end of 1938 as compared with the 50-65 per cent reserve of Chinese currency.² To allay popular anxiety, the Japanese government is now considering the advisability of raising further the legal limits of the note issues of these three banks.

Notwithstanding the inauguration of foreign exchange control in Japan, beginning from January, 1937, the need for foreign currencies has remained desperate—so much so

¹ Y. C. Koo, "The Japanese Economic Structure", in *Far Eastern Mirror*, Hongkong, August 10, 1938.

² As a matter of fact, Japan has been on a non-redemption basis since December 17, 1931.

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that, in November, 1938, the government instituted a census of gold hoardings in the country, when thousands of civilians were called to the official inquiry. Gold coins of all nationalities and periods are being collected and placed in the government treasury. And amidst this feverish search for gold and foreign exchange, the Japanese government has recently issued a decree prohibiting the export of certain outstanding commodities into China (such as cotton piece-good and cotton yarns), and simultaneously promoting their sales in regions which use foreign currencies, such as Hongkong, Macao, Siam and the South Seas areas. It is indeed ironical that Manchuria and other occupied regions of China which had been expected to serve as rich outlets for surplus Japanese goods, are now found unprofitable, inasmuch as little currency of foreign exchange value can be lawfully secured therefrom.

At present the Japanese are doing all they can to maintain the Yen at the official exchange rate of 1s. 2d., but it can be purchased in Hongkong and Shanghai at no more than 8½d.¹ The continuous issuance of "China Incident" bonds and bank-notes as well as the heavy purchases of foreign war materials, with the consequent outflow of gold to cover such transactions, are making the maintenance of the official rate of exchange increasingly difficult, if at

¹ As an instance of the Japanese currency muddle, Mr. Donald Grant, Labour Member of the New South Wales Legislative Council, related in April this year that he had changed £25 into Yen in Shanghai at the rate of 30 to the pound. Upon his arrival in Japan, he had sold part of this money to an American at 20 to the pound, and later in Peking had converted what was left of this portion into Yen again at 30 to the pound. His trip through Japan had cost him nothing !

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all possible. In fact, the Yen has been dropping so heavily in the international money market that many foreign banks no longer deal in Japanese currency.

RISING COST OF LIVING

With the gradual depletion of the specie reserve and the depreciation of the Yen since the outbreak of war, commodity prices in Japan have soared to a new high level. Despite government control of commodity prices, wholesale prices in December, 1938 (based on statistics compiled by the *Oriental Economist*), have increased 12.9 per cent as compared with those in June, 1937, while retail prices have risen 23.6 per cent during the same period (according to the Bank of Japan's figures). And while wholesale and retail prices in Japan have been going upward, world price levels have been declining since 1936. Again, based on official Japanese statistics released as early as May, 1938, there has been an increase of about 50 per cent in the cost of living since the Manchurian invasion of 1931. Of this increase, more than 25 per cent took place and was attributed to economic changes after the "Marco Polo Bridge Incident" of 1937. But incomes and wages in Japan all this time have either been cut or remained unchanged, although there have been wage increases in the heavy and war industries. In reality, the incomes of most of the salaried people and the wages for the working population have greatly decreased, if one takes into consideration the increase in commodity prices, compulsory subscriptions to government bonds, and the 20-40 per cent increases in income tax now being enforced. Even official Japanese data point to the fact

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that real wages have dropped 15 per cent since July 1937, and over 30 per cent since 1931.

The war has not only touched the pockets of the white-collar class and the unskilled workers, but is now making its effects felt among the bigger merchants and business concerns. Considerable discontent has already emerged in financial and commercial circles in Japan in regard to the invocation of the National Mobilization Act, through which the militarists hope to control the promotion of business, the dividends of business corporations and the funds of the various trusts, banks and insurance companies. Article 11 of the National Mobilization Act stipulates that business corporations with capital of Yen 200,000 or more will not be permitted to declare dividends exceeding 10 per cent per annum. The enforcement of such financial and economic control is bound to further stifle business activities in Japan.

INDUSTRIAL, PROPERTY AND MILITARY LOSSES

But a survey of Japan's economic losses during the so-called "China Incident" would not be complete without including an estimate, though necessarily tentative and approximate at this moment, of her industrial and property damage as well as military sacrifices in China. It is needless to say that war injures both sides and that Japan has inflicted immense damage on her own economic establishments and interests in China. Since the outbreak of hostilities Japan's returns from investments in Manchuria have been reduced and most of her enterprises in China proper have had to stop operation, although in recent weeks some of

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them have managed to reopen. It is impossible yet to calculate Japan's industrial and property losses in China, but, according to the statement made by a spokesman of the Japanese Embassy in Shanghai on January 12, 1938, Japanese losses in Shantung province alone (including Yen 300,000,000 value of cotton mills destroyed in Tsingtao) are estimated at about Yen 1,000,000,000, which is probably too high. In retaliation against Japan's wanton destruction of Chinese factories, schools, libraries and government offices, Chinese armed forces have also destroyed many Japanese-owned industrial establishments and mines in other war-affected provinces. Because of these losses, Japanese business men and firms in China will be unable to function in full force for some time to come.

The efforts which the Japanese are now making to recoup their trade and industrial losses in China are anything but effective. Though outwardly Japan's total trade with China has doubled in a period of four years, 1934-38 (as shown in the following table), the net result of her export trade with "occupied China" during recent months means no real gain, for such increases in exports to the Japanese-controlled areas are made in terms of Yen and/or puppet currencies, while her adverse trade balances with Europe, the United States and other "foreign currency" countries are in terms of gold. Most of what Japan has to sell in the occupied areas of China is made of materials imported from the Western nations, for which she has to settle in gold. As pointed out in the *Oriental Economist* (April, 1939), although Japan's foreign trade during 1938 resulted in an excess of exports over imports, her favourable

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trade balance, amounting to Yen 601,000,000, was made entirely with the Yen-bloc regions such as Manchuria, North and Central China, while her trade relations with foreign currency countries showed an adverse balance amounting to about Yen 574,000,000. In 1937, 24.9 per cent of Japan's exports went to the Yen-bloc countries and 75.1 per cent to third countries, but in 1938 the proportions changed to 43.3 per cent and 56.7 per cent respectively.

TABLE VII
SHOWING JAPAN'S TRADE INCREASES WITH CHINA, 1934-1938

Year	Imports, Yen	Exports, Yen	Total, Yen
1934	120,000,000	117,000,000	237,000,000
1935	134,000,000	149,000,000	283,000,000
1936	155,000,000	160,000,000	315,000,000
1937	144,000,000	179,000,000	323,000,000
1938	165,000,000	313,000,000	478,000,000

"Manchukuo" and China were the only outlets to which Japanese exports increased during 1938. Those to the Straits Settlements declined by Yen 47,000,000, or 69 per cent; the Dutch East Indies, Yen 96,000,000, or 48 per cent; the Philippines, Yen 29,000,000, or 46 per cent; and British India, Yen 111,000,000, or 37 per cent. Those to England declined by Yen 33,000,000, or 19 per cent, while American purchases of Japanese goods declined by Yen 214,000,000, or 33 per cent. From these data it will be seen that numerical increase in exports to the occupied areas of China and/or the Yen-bloc regions does not give a real but merely a nominal profit to Japanese

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business men, and any further expansion of their trade in the China market will only become more harmful.

Japan's trade losses have been most conspicuous in Hongkong, which, for purposes of this brief survey, may well be treated as a part of the China market. Since the outbreak of war, Japan's trade with Hongkong has dropped from the second to the eighth place, according to the statistics compiled by the Import and Export Department of the Hongkong government. Japanese exports to Hongkong have declined from HK.\$58,039,000 for the year 1936 to only HK.\$18,781,000 in 1938, which is a drop from 12.8 per cent of Hongkong's import trade to a mere 3 per cent in a period of two years.

On the military front, Japan's sacrifices are no less staggering, although her army spokesmen invariably refuse to divulge the real figures. However, neutral military observers are convinced that up to the autumn of 1938 at least 500,000 Japanese soldiers died either on the field of battle or from diseases, or were put out of commission through injuries sustained in fighting. These figures probably do not tell the whole story of Japan's military sacrifices in China, for, according to the statistics compiled by the Chinese National Military Affairs Commission and issued on January 28, 1939, the total Japanese losses in man-power since July, 1937, are estimated as follows :

Officers and men killed and wounded . . .	700,000
Japanese airplanes shot down or destroyed on the ground . . .	649

In this connection, it may be remembered that during the

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severe fighting along the Yangtze valley in August and September, 1938, the Japanese casualties reached a total of 100,000, many of them having died of malaria and cholera.

This does not mean that Japan's military strength is exhausted. On the contrary, it would not be wise to underestimate her human resources. Neutral military observers estimate that Japan could mobilize a total of 2,000,000 to 2,500,000 men during her first year of war and that no shortage of man-power would be felt until about the second year. But bearing in mind that, while conducting her military operations in China, Japan must simultaneously mobilize sufficient troops to protect the Manchurian frontier against possible clashes with Soviet Russia, and that even in the occupied regions in China hundreds of thousands of guerillas are constantly harassing Japanese lines of communication, causing unexpectedly high casualties on both sides, one does not find it hard to understand why the Japanese Ministry of War is feeling somewhat worried about the future supply of officers and trained men, and has already begun to lower the physical and educational qualifications of its conscripts.

JAPAN'S ECONOMIC ROYALISTS SPEAK THEIR MINDS

However, it would be unfortunate for anyone to surmise from this cursory review of Japan's war-time economy and finance that she is approaching the breaking point. Inspired by the "august virtues" of their Emperor and inoculated with ultra-nationalistic aspirations, the Japanese people may be able to stand the war strain for a much longer period than outsiders think, and will likely continue to

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carry out their "divine mission" against all odds. Despite military uncertainties and economic suffering, many jingoistic elements in Japan are still optimistic about their continental campaign and are undaunted in supporting the ruling class. Many Japanese financiers and capitalists refuse to be disheartened by their present predicament and, voluntarily or involuntarily, are working in close collaboration with the war-lords. Rightly or wrongly, these financial tycoons and business magnates believe that they have a bright and glorious future in the conquest of China. A glaring example of the peculiar psychology of these satellites of Japanese imperialism may be found in an article written by Mr. Hirozo Mori for the Japan Foreign Affairs Association. Writes Mori :

"We bankers, as one man, support the Government in this emergency with full faith in the justice of our cause, and we see no reason why we should not be able to crush our enemy, the disturber of peace of the Far East. Our population is increasing, and this increase can be supported only by expansion of trade and industry, for which the nearest market is China and the Asiatic mainland. Herein lies our economic future. There is no gainsaying this fact. We want the world and the Chinese people to understand and recognize it. Expansion towards the continent is the destiny of the Japanese people, Heaven decreed, which neither the world nor we Japanese ourselves can check or alter."

Moreover, not a few Japanese die-hards maintain that they are able to support a long war, and in order to make up their present losses and hardships, they are devising various means to turn the whole of East Asia into their

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special preserve. In an article entitled "Can Japan Stand Protracted Hostilities ?" Mr. Ginjiro Fujihara points out how Japan can surmount her present financial difficulties and eventually develop a self-sufficient economic bloc between Japan, China and "Manchukuo". Fujihara declares :

"A long war does not strike terror into the hearts of the Japanese people. As long as we adhere to the above policy of concentrating government fiscal methods and industrial resources in connection with conflict, it makes no difference whether one or two countries oppose us or whether hostilities are aggravated in respect both of duration and scope. This industrial and financial control will not be the same as that of either Germany or Italy, as ours will be conducted voluntarily by the business and banking people affected and with a minimum of government supervision. It is probable that before peace talks are started in real earnest Japan may have occupied Nanking and Shantung in addition to North China and Shanghai. Her military occupation may last from two to three years, even ten years if necessary, until China repents of her past stand and becomes disposed to listen to reason. Just as was done in Manchukuo early during Japan's military occupation, vigorous Japanese export movements to these China areas may be started and maintained. During this military occupation, an army of robust and hustling Japanese business go-getters may invade these territories under the protecting wings of the Japanese army and navy, to double and treble Japanese exports. In four years since the outbreak of the Manchurian incident Japan has managed to increase exports by Yen 310,000,000 a year to the continental area containing China, Manchukuo and Kwangtung. It will not be surprising if, within a much shorter period, Japan doubles or trebles this gain in exports to that part of

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China proper which will be under the influence of Japanese forces."

THE IMPENDING ECONOMIC CRISIS

But notwithstanding their super-patriotism and misguided zeal, the Japanese cannot go against the laws of economics for ever. When they went into the China adventure in July, 1937, many of them had hoped to find an escape from the economic predicament caused by the growing deficits in their national budgets ; but their hope has been shattered, and instead they have to face a far greater economic crisis. Thus far their efforts in consolidating their territorial gains in China have borne little fruit. Indeed, due to the Chinese "scorched earth" policy, the occupied areas will be unable, at least for some time to come, to give or produce what Japan urgently needs.¹ The more she penetrates into the interior provinces the harder it is for her to hold and develop what she occupies ; it will only mean additional drain on her reserves of men, money and materials.

It is not what is already happening but also what is in store for the Japanese people that makes a dark spot in Japan's economic outlook. For after the war is over (and whatever its outcome), its effects on Japanese trade, industry, finance and social conditions will become cumulative, causing an economic depression throughout the land. In the course of the present hostilities Japan has diverted all

¹ The Ministry of Economics of the Chinese government has issued an order prohibiting the exportation of Chinese commodities into Japanese-controlled areas or any part of the Japanese Empire.

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her energies and activities into unproductive channels and has lost markets which will not be easy to recover, once these are dominated by other industrial nations. In fact, since 1931 her militarists have been increasing their control of domestic economy and have been purposely reorganizing various industries to serve imperialistic aims. For a short period, it may be all right to conduct industry on a non-profit basis, but the cumulative effect of such an unbalanced economy would be disastrous under peace-time conditions. Exhausted by the loss of man-power, extreme diversion of business capital into war industries, over-taxation, staggering war cost, rural disintegration and foreign economic pressure, Japan will most certainly have to face an economic crisis far more extensive and calamitous than the Germans suffered after the World War.

Chapter VI

ECONOMIC IMPLICATIONS AND CONSEQUENCES

SOME PERMANENT DAMAGES AND TENDENCIES

Two years of Sino-Japanese warfare, covering an area larger than France, Germany and Belgium combined and affecting a total population of 160,000,000 (which is at least 30,000,000 more than the total population of the United States), have imposed staggering costs on both belligerents. On the Chinese side it is estimated that the war has rendered 30,000,000 people dependent upon government and charitable organizations for their livelihood, and has destroyed approximately 2,500,000 lives, including civilians killed by bombs, floods and pestilence.¹ Chinese war casualties, according to official reports, reached a total of 850,000 up to the end of 1938. Of this total, about 300,000 have been killed in action. On the Japanese side, neutral military observers have estimated that nearly 500,000 men have been sacrificed (either killed in action or by disease) and thousands more wounded, although Japanese sources invariably underestimate their casualties. Again, to

¹ Up to the end of 1938, about 15,000,000 war refugees have received direct and indirect help from the National Relief Commission of China.



"Newsreel"

Chapei (part of Shanghai), once a prosperous industrial centre, now turned into a wasteland by Japan's military invasion.



"Newsreel" Wong

Dispossessing Chinese workers of their means of livelihood.

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maintain over 1,000,000 troops in China the Japanese government has been spending enormous sums of money. To the Chinese the war has been costing between \$2,000,000 and \$3,000,000 a day, while to the Japanese it has been running up to almost Yen 15,000,000 a day. And the end of these huge expenditures is not yet in sight !

The terrific expenditures of the war are better shown by the increases in the national debts of the two countries concerned. According to the Ministry of Finance of the Chinese government, Japanese war bonds issued since the outbreak of hostilities and up to the beginning of December, 1938, total around Yen 7,000,000,000, which is four to five times larger than what the Chinese government has issued during the same period, amounting to about \$1,500,000,000. According to the same source, the total outstanding national indebtedness for Japan amounts to Yen 17,500,000,000 to Yen 18,000,000,000, and for China \$6,000,000,000. In other words, the Japanese national debt is three times as large as China's at the present official rate of exchange. Since July, 1937, the *per capita* debt burden in Japan has increased by about Yen 100, whereas in China it has increased by \$3.00.

But more ominous than these financial costs are the economic damage and repercussions wrought by the war. Great areas east of the Peiping-Hankow railway and north of the Yangtze as well as a large part of southern Kwangtung have been defaced as they have hardly ever been defaced before. Drenched with the blood and tears of countless innocent non-combatants, the "Good Earth" of one-third of China no longer shows signs of life and activity,

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but represents a picture of horror and devastation far more appalling than the shattered districts of post-war Belgium. Along the main lines of communication in North, Central and East China, village after village has been destroyed and scores of once prosperous towns have been looted and damaged.¹ The dislocation of economic life in these regions, if at all capable of reparation, will require decades of hard work and reconstructive effort to make up, while the large scale migration of people, together with movable property, will make such reconstruction a difficult task.

Similarly, the disruption of trade and industry in Japan and the subsequent deterioration of her people's livelihood, are bound to impair her economic position for many years to come. If, as someone has remarked, the clock of progress in China has been set back by fifty years, then the admirable advance which Japan has made since the Meiji restoration has also been retarded by several decades.

It must be evident to all observers that the Sino-Japanese conflict has greatly altered the economic situation in the Far East and is bound to affect future relationships between East and West. Particularly with the Japanese now trying to control the usual trade routes in the Orient and with China feverishly developing new outlets through her so-called backyard, there is bound to be considerable transformation in the economic life of the western provinces

¹ The total war losses in Shanghai alone, as estimated by an American long experienced in Far Eastern trade, amount to \$8,444,000,000 which is regarded as authentic as any estimate available now. This amount includes losses of industrial plants, equipments, property, goods and raw materials, household effects and shipping revenue, states the *China Weekly Review*.

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as well as in the trade relations between China and Europe, just as the war has already brought about a change of emphasis in the Chinese reconstruction programme and an extension of Chinese financial institutions towards the western provinces and the South Seas region. Fortunately or unfortunately, the war has further taught the Chinese the necessity of subordinating economic interests to strategic factors. Unless there is a slackening of this spirit of economic nationalism now rampant the world over, political considerations rather than economic values will become increasingly powerful determinants in China's future development.

But whichever road she is going to follow, China manifestly cannot undertake the task of post-war rehabilitation without resorting to considerable financial help from abroad. Thus the destiny of China is as closely related to the future of foreign investments as her development has been intimately affected by the economic policies of the Western nations during the last century of Sino-foreign intercourse.

It is needless, therefore, to emphasize that the future of China is not and cannot be treated as an isolated issue but is inseparably interwoven with the welfare of the West and other questions of world importance. Left unhindered to develop her economic and cultural life on the basis of her peaceful traditions and moral heritage, China will be a useful and stabilizing influence in the family of nations. But if dominated by a fascist and militaristic nation like Japan, China would become a perennial source of international friction and her loss of freedom would completely

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upset the political equilibrium heretofore subsisting amongst the Pacific Powers. In view of this significance, it may not be irrelevant to recapitulate in this chapter the repercussions which the war has been having on the position of the Western Powers in the Orient.

FUTURE OF BRITISH INTERESTS

The detrimental effects of Japan's attempt to enforce a policy of "closed economy" in the Far East are most clearly shown in the decline of British interests, which hold almost four-fifths of the foreign investments in China. In fact, Great Britain has invested more money in China than in any other country except Argentina, and such investments, unlike foreign trade, cannot be easily shifted or withdrawn. Thus if Japan should succeed in establishing a Great Economic Wall around China, her success would be first and foremost at the expense of the British Empire.

The Japanese invasion has been particularly damaging to British trade in South China and Hongkong, which, prior to the fall of Canton, was rapidly recovering from a severe business depression. As a result of the Japanese closure of the Pearl river and the occupation of the northern section of the Canton-Kowloon railway in October, 1938, a drastic fall in trade with the interior of China was recorded by the Import and Export Department of the Hongkong government. According to this source, the monthly average of Hongkong's trade with China for the first nine months of 1938 amounted to HK\$.41,690,000, but declined to only \$29,710,000 for the last three months of the year, *i.e.* a reduction of nearly \$12,000,000 per month.

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The importance of South China to the economic life of Hongkong (which represents some £64,000,000 of British capital) can be easily visualized if one remembers that in normal times the trade between these two areas totals no less than \$200,000,000 a year, and that during the extraordinary war year of 1938 this trade relationship (including Central China, as Shanghai had lost its premier position in the nation's export trade) reached a record of \$463,991,816, which constitutes about 41 per cent of Hongkong's total foreign trade. But with the Japanese now playing the rôle of conquerors in Kwangtung province, Hongkong has lost its best customer, and present circumstances do not indicate any prospect of relaxation of trade control on the part of the Nipponese.

As a matter of fact, Hongkong's trade with South China during the first quarter of 1939 amounts to only HK.\$18,115,986 as against \$69,666,666 for the corresponding period of last year. This represents a drop of \$51,550,680, and it is difficult for anyone in Hongkong to feel optimistic about the future so long as the Japanese invasion is not liquidated.

On the contrary, the Japanese are feverishly establishing themselves in all the important businesses in Canton, just as they are doing in other occupied areas. Japanese merchandise of every description is now pouring into that city directly from Japan and Formosa. As the Canton Customs Administration is meeting with insurmountable interference and cannot function properly, none of this import trade is paying any regular duty. Contrary to Japanese allegations, the Pearl river is now quite safe for navigation

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and commercial traffic, as proved by the hundreds of Japanese vessels plying along this waterway. And yet since October 14, 1938, not a single case of foreign goods (some relief materials and food supplies have been sent to Canton by special arrangement) has been allowed to reach Canton from Hongkong.

When it is realized that what is happening to Hongkong is also true with British interests in other Chinese ports, and that the Japanese blockade has badly disrupted British shipping, which hitherto has enjoyed 45 per cent of the river and coastal trade in China every year, the grand total of British losses caused by the present war must be mounting to an astronomical figure. As reported by Sir Robert Calder-Marshall, Chairman of the British Chamber of Commerce in Shanghai,

“ Britain's £300,000,000 investments in China are worth just about half that sum today. Material damage to British property in Shanghai is estimated at approximately £500,000, but consequential losses have been far heavier than this initial material damage, and may be estimated at anything from ten to fifteen times the above amount, i.e. from five to six and a half million pounds.”

But it is the potentialities of the present situation that are causing grave concern to those interested in foreign trade and industry in China. Continuing his report, Sir Robert Calder-Marshall said :

“ What, then, of the future ? It is not easy to separate the incidental from the fundamental, certain restrictions which are imposed may be incidental and merely due to temporary military exigency or they may be part of a

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fundamental policy. It is at times difficult to decide. The closure of the door for foreign trade in Manchuria, the embargoes imposed in Tientsin on the export of certain commodities except to Japan, and the restriction placed on foreign merchants and shipping which put them at a decided disadvantage seem to indicate a fundamental policy which is the antithesis of the Open Door."

AMERICA'S STAKE IN THE ORIENT

In America there is still an erroneous impression that American economic interests and financial investments in China, amounting to about U.S.\$200,000,000, are not important enough to warrant any drastic action in curbing Japanese aggression. It is not realized that these investments, because of their diversified nature, give livelihood not only to many American communities in China but also provide work for a good portion of the industrial population in the United States where many industries are built up on an export basis and not a few of them have become dependent upon the Far Eastern market. It is not so much the investments themselves as the business they bring, the returns they make and the potentialities they hold that make the American stake in the Far East an important issue.

The Japanese invasion has already brought about a sharp decline in Sino-American trade during the last two years. In 1937 the United States led all other countries in China's foreign trade. During that year American exports to China amounted to \$188,859,040 as compared with \$185,511,519 in 1936, while American imports from China totalled \$231,448,711 as compared with \$186,320,864 in

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the previous year. In 1937 Japanese exports to China were valued at \$150,431,596, a decrease over the 1936 total, while Japanese imports from China amounted to \$84,305,674 as against \$102,367,061 in 1936 (not including smuggling). But due to Japanese discriminations, Sino-American trade has decreased by two-thirds during the first eight months of 1938, and is likely to show further diminution. As shown in Chapter III, Japan has now taken the premier position in China's foreign trade, and this leadership she is apparently determined to hold by force.

But if the Japanese economic drive is not checked in time, the United States will not only lose one-fifth of China's foreign trade but must also be prepared to face a gradual weakening of trade relations with Japan. One of the objects of Japanese economic expansion is to control China's raw materials, especially iron, cotton and oil—in all of which she has been greatly dependent upon the United States for many years. But this profitable trade relationship between the two Pacific Powers is bound to be wiped off once Japan obtains control of Chinese man-power and resources. In North and Central China, Japan is already "taking over" some of China's richest iron mines. In North China she is trying to increase and monopolize the production of cotton. And in Manchuria, as well as in some parts of North-west China, Japan is trying to end her dependence upon American oil by developing the shale oil industry. With free access to China's iron ores and cotton fields, and with Japanese merchants continuously intruding into the retail oil business in the occupied areas, the day is not

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far off when Japan will no longer find it necessary to carry on any measurable trade relations with the United States.

Moreover, the trade relations which the United States maintains with China are far more wholesome than those with Japan. Chinese exports to the United States do not tend to compete with or retard American industries, while Japanese exports to the United States are often found in direct competition with American manufactured goods. Chinese purchases from the United States, particularly in recent years, have helped in the economic reconstruction of China, whereas most of what Japan has been buying from the United States has been used to build up and strengthen the war machine. In short, the trade activities between China and the United States are far more rational and have greater possibilities of expansion than those between Japan and the United States. It may be true that Japan is buying more from America than China is, but, inasmuch as most of these purchases are war materials, they cannot be regarded as permanent or beneficial to either country.¹

Japanese propagandists are now telling Western financiers that, if placed under Japanese tutelage and administration, China will develop more rapidly and offer a better field for

¹ Secretary Cordell Hull, in a statement on April 6 this year, pointed out that the abnormal increase of trade between the United States and "Manchukuo" for several months of 1938 was due entirely to the piling up of war materials by the puppet state, such as manufactured steel, military machinery, petroleum products, motor cars and trucks. These purchases cannot be interpreted as a normal trade increase.

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foreign investments and commerce. It is to be hoped that the Western peoples will not be deceived by such talk, for Japan's records in Korea, Manchuria and Inner Mongolia are anything but reassuring. From all of these regions the Japanese have systematically evicted Western interests and enterprises. Only in a few limited spheres of economic activity where Japan herself is sadly deficient have the Westerners been left undisturbed. For a brief period of economic readjustment and rehabilitation Japan may want, and will probably have to rely upon, Western capital and equipment to develop the occupied areas in China, but such collaboration will be short-lived and will only be arranged to serve Japanese purposes. What Japan has already done—and left undone—in her territorial possessions and colonies speaks more convincingly than her smooth-tongued propagandists.

The Japanese are also working for British and American financial support by using the prospect of rich dividends as an attraction. Assuming that such investments for the "reconstruction" of China were to bring any profits in the not distant future (which is quite unlikely), they would but assist Japan in building up industries in the Orient that would eventually compete with British and American industries and thereby destroy Western influence and prestige. It is but the inevitable outcome of Japan's policy of "closed economy". As Mr. Julian Arnold, U.S. Commercial Attaché in China, declared in an address in San Francisco in September, 1938,

"unless Americans—and particularly those on the western slope—awaken to what is transpiring in the Orient, this

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nation will lose its place as a Pacific Power and its lucrative trade with China".¹

But America's interest in China and the Far East cannot and should not be measured purely on the basis of a financial statement. There are non-economic factors and aspects which make her stake in the Orient far more important than trade returns, though the latter are vital to some sections of her people. Recent events in the United States indicate that, despite the activities of muddle-headed isolationists, an increasing number of leaders in that country are beginning to realize the necessity of exerting their influence towards the maintenance of world peace and the restoration of world confidence in international treaties. President Roosevelt's decision to move the overwhelming portion of the American fleet to the Pacific in April this year shows clearly that he and his colleagues are convinced that they cannot prevent the rise of lawlessness in one hemisphere without making their influence felt in the other, and that sooner or later their government must be prepared to do its part in consolidating the international peace bloc. The Pacific Ocean is no longer a barrier but a bridge between the Old World and the New, and the United States cannot have security on the Atlantic front unless she also helps maintain peace in the Pacific. America cannot take an effective part in checking aggression in Europe unless she plays a similar rôle in the Orient. It is this element of democratic solidarity or collective security—

¹ Up to May 6, 1938, direct losses sustained by Americans during the first ten months of the war are estimated at more than U.S. \$150,000,000 according to official estimates.

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now looming in their political outlook—that the American people must consider in shaping their policies towards the Far East. It is a question which they cannot permanently put aside, though they may be able to dodge it for a short while.

EFFECTS ON OTHER POWERS

In her war on foreign business in China, Japan has not even shown any leniency towards her political and ideological allies. Germany and Italy have equally suffered, and are still suffering, from Japanese discrimination in the occupied areas. German trade with China, for instance, declined by 20 per cent during the first ten months of 1938 as compared with the same period the year before. The total Chinese imports from Germany from January to October, 1938, amounted to \$104,590,000, a decrease of \$31,150,000 over the corresponding period in 1937, while the total exports to Germany during the first ten months of 1938 amounted to \$45,700,000, showing a decrease of \$17,600,000 over the same period in 1937. The decrease of trade between Germany and Shanghai is even more conspicuous. The trade between Germany and Shanghai, amounting to \$83,900,000 during the first ten months of 1937, totalled only \$27,480,000 during the same period of 1938—a reduction of about 65 per cent. It is true that much of this reduction was due to the breakdown of trade and industry in and around Shanghai as a result of the war, but since during the same period Japanese trade has been showing an upward trend, the decline of German trade must be attributed chiefly to Japanese discrimination.

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But Germany has also suffered an invisible loss that cannot be measured in terms of dollars and cents. As the German Chamber of Commerce in Shanghai reports :

“Unlike Italy, we have to lose good-will in this country which has resulted from twenty years of diligent upbuilding by German merchants since the Great War and which started out of nothing. What do we have to expect, as regards economic conditions, in a China ruled by Japan? The answer does not sound optimistic. We shall do business, good business even, but on a short-term basis. For anybody who knows the true motives of this invasion, there can be no doubt that a Japanese victory in China means the beginning of the end for foreign traders. . . . A free China, belonging to the Chinese, should offer practically unlimited possibilities for us Germans.”¹

The feeling of nervousness at the increasing success which the Japanese are having in driving foreign interests and influence from the Far East is equally shared by a growing number of people in France, where the question of security for Indo-China is being widely discussed. In a leading article early in November, 1938, *Le Temps* expressed profound concern over ex-Premier Konoye’s pronouncement of creating a great Asiatic bloc.

“This”, the well-known Paris journal says, “confronts the Occidental powers with an entirely new problem

¹ Free China is still a more profitable market for Germans than all the Japanese-occupied regions put together. In 1938 Germany sold 54 per cent of her exports to areas under the control of the Chinese national government, 30 per cent to Shanghai and only 16 per cent to the Japanese-occupied districts. Italian exports to Japanese-controlled areas in 1938 were also insignificant and her percentage was still in favour of free China.

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whereby Japan hopes to turn to its own advantage the rivalries existing between the yellow and the white races. The question is whether the solidarity of the peoples of the white race is less than that of the peoples of the yellow race. If Japan has been able within the space of a few years to establish its domination on the continent, from 'Manchukuo' to Hankow and from Shanghai to Canton, it is primarily only because Europe has been torn by internal disputes and because the United States, hoping to steer clear of international conflicts, has failed to understand how to act in an anti-movement in full solidarity with other interested powers against the daring enterprises of Japanese imperialism."

Because of this fear, the French authorities are now putting forth a great defence programme in Indo-China, constructing an aircraft factory in Hanoi capable of producing 150 planes and 500 motors a year, and have resumed the development of Cam-Ranh harbour on the eastern coast. The completion of this naval base, which sheltered the big Russian fleet before it met with the crushing blow at the hands of the Japanese in 1905, will, it is hoped, strengthen the so-called Singapore-Hongkong defence line.

The ominous implications of the Japanese economic drive in China are by no means limited to the big Powers which have huge financial interests and trade relations in the Far East, but are likely to be felt by several smaller countries having territorial possessions in the Pacific area. For the Japanese military adventurers have looked upon these possessions of the Western nations with no little jealousy. As a matter of fact, the Japanese military clique has been persistently advocating and planning for an

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ultimate conquest of the various strategic islands in the South Pacific Ocean, and has made no secret of its intention to carry out a programme of Southward Expansion. In his book on *Japan must fight Britain*, Licut.-Commander Tata Ishimaru made a definite reference to the need of "looking to the sea for her [Japan's] future prosperity", pointing out that the economic value of Manchuria will last but twenty to thirty years ! "We must take a wider view and not think that Manchuria alone can secure the future for us ; we must look farther into the wide world, and we must not forget that our future prosperity lies on the sea," declares this Japanese empire-dreamer.

And if these words are not conclusive enough to prove Japan's desire to achieve complete domination in the Pacific area, let us read what General S. Honjo once wrote to the Japanese war minister in regard to Japan's plan of world conquest :

- " 1. Having vanquished the American influence in the East, the British influence in Singapore and Hong-kong would not be potent enough to do us any harm. Moreover, it would soon be destroyed by our navy while the South China Sea would likewise come under our jurisdiction.
- 2. If the above-mentioned places (meaning Manchuria, Mongolia and Siberia) are placed under our administration, our Empire will in less than ten years acquire a wealth exceeding that of the United States of America. When the time arrives, will there be any country in the world which will be found sufficiently powerful to oppose and compete with our Empire ?
- 3. We would then be in a position to drive away the

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United States to the east of Hawaii, and Great Britain to the west of Singapore and to hold supreme power on the Pacific without any difficulty. While all the islands constituting the South Seas Archipelago now under Dutch rule as well as the British colonies of Australia, New Zealand, etc., would be within easy grasp at our Imperial will.

4. Once we had attained such an influential position, we could proceed to conquer the whole country of China and the whole of Asia, and further to subjugate the whole continent of Europe as well as that of Africa by force until we have gained control of the Eastern Hemisphere of the globe, when we would share equally with the United States the good things of this world in accordance with the instructions contained in the will of our late Emperor Meiji and as becomes the fitting duty that our Taiwa race must carry out." ¹

It would be a great mistake if one were to comfort oneself by thinking that all this talk and writing about Southward Expansion is a mere fantastic dream on the part of Japanese jingoists. Rightly or wrongly, the Japanese navy has been consistently carrying out this policy during the last few years. The capture of King-men island opposite Amoy, the seizure of Nam-au island opposite Swatow, the taking over of Shan-chuan island west of Macao, and the occupation of Weichow, Hainan and Spratley islands in the Gulf of Tonkin during recent weeks, cannot be interpreted as accidental excursions on the part of the Japanese

¹ Jen Tai, *Documents Illustrative of Japan's National Policy*, published by the Council of International Affairs, Nanking, October, 1937.

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strategists, for the possession of this string of stepping-stones virtually brings the Japanese warships and bombing planes to the very door-steps of French Indo-China, British Malaya and the Netherlands Indies.

Indeed, this Japanese programme of Southward Expansion has already aroused grave anxiety amongst the Netherlands, whose territorial possessions between the South China Sea and the Indian Ocean—Sumatra, Java, Celebes, Borneo, Dutch New Guinea and several lesser islands—form an area sixty times as large as Holland itself. In these colonies the Netherlands have fabulously rich resources as well as some of the world's best harbours and most strategic ports. That they are not overlooking the dangerous possibilities of Japan's naval expansion is shown by the fact they have increased their defence (chiefly naval defence) expenditures from U.S.\$50,000,000 for the fiscal year 1937 to U.S.\$80,000,000 for 1938. Of the U.S.\$80,000,000, no less than U.S.\$20,000,000 will be used for building light and mobile vessels, which would be most adaptable in protecting the vast Netherlands archipelago.

JAPAN'S CHALLENGE TO THE WORLD

Japanese apologists often deplore the lack of proper understanding of their national policies on the part of the Western countries. Truly, the world has suffered from a lack of knowledge of Japan. The endless, gratuitous and attractive literature put out by Japan's world-wide tourist bureaus as well as the smooth talk of all her top-hatted diplomats have long given many people an exaggerated picture of the island empire. To the Western mind Japan

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has always been represented as a land of peace and beauty—of cherry blossoms, pretty geisha girls, industrial efficiency and political progress ; and her rulers have been carefully portrayed, even by some of our own enthusiastic Chinese writers, as amiable and contented gentlemen. Particularly in England, where for many years the conservative elements have used and trusted Japan as an indispensable ally in maintaining the established international relations in the Orient, the deception is most regrettable. In fact, the Western Powers have been so naïve in their dealings with Japan that they are now forced to pay the price of their own illusions.

Fortunately, statesmen the world over are quickly realizing the naked truth and are beginning to acquire a new knowledge of Japan, for by her own imperialists Japan is being unmasked. The Japan of political assassins, recalcitrant army officers, evasive spokesmen, fanatical war-lords, fortune-hunting *ronins*, ambitious empire-builders, helpless and inarticulate liberals, enslaved women, underfed and oppressed workers, over-taxed and starving peasants—the Japan that has been deliberately kept unknown to the outside world—is at last being revealed. If Japan has ever been regarded as an invincible military force, the Chinese have now exploded that myth. If Japan has been considered as a modern civilized unit in the family of nations, her rape of Nanking and brutal conduct elsewhere in China have disproved that supposition. If Japan has been treated as a trustworthy partner in various international undertakings, the invariably empty assurances of her diplomats have destroyed that trust.

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The world has been very patient with Japan. Since the "Mukden Incident" of September 18, 1931, the leading capitals—London, Paris, Washington, etc.—have shown remarkable restraint in their treatment of the Japanese menace, and have tried not to offend unduly Japanese sensibilities, hoping that the moderate and liberal elements in the island empire would some day get the upper hand in domestic politics and would be able to limit the aggressive work of the military clique. It is now nearly eight years since the Japanese war-lords launched their empire-building campaign on the Asiatic continent, and, far from showing any slackening in their warlike activities, they are extending their "life-lines" in all directions. They are now pushing their defence lines as far north as Siberia, as far west as the virtual outskirts of Chinese Turkestan and as far south as the shores of French Indo-China. Clearly no government or group of elder statesmen within Japan can now effectively restrain her military adventurers. The game has gone too far, perhaps. But if no effective control can be expected from Japan herself, the Western Powers (*in addition* to China), whose interests are being openly jeopardized and which possess the instruments for enforcing international law and order, must sooner or later be faced with the necessity for action.

The war between China and Japan, as many neutral observers have remarked, is not a mere military conflict between two Oriental nations. In the words of Generalissimo Chiang Kai-shek, "this is a war between good and evil, between right and wrong". It is a struggle between the forces of peace and the forces of anarchy, the outcome

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of which will inevitably affect the welfare of the entire human race. If China wins the war, it will not only mean her own emancipation but also bring a great moral and ideological victory to the whole world. If China wins, it will prevent Japan from hatching further schemes of territorial aggrandizement and thus enable the United States, Great Britain, Soviet Russia and other Pacific Powers to reduce their titanic military burdens in the Orient. If China wins, it will pave the way for the restoration of international life on a level which all democratic nations have been fighting hard to uphold since their catastrophic experience in the World War. In such an important international struggle it behooves all peace-loving peoples to remove all the difficulties that are found in China's path to freedom, and to give her all the moral and material support which she needs to bring her war of independence to a successful conclusion. In entertaining this hope for international co-operation and solidarity, the Chinese people have particular reason to look to Great Britain and the United States, as chief authors of the Nine-Power Treaty, to show the greatest initiative.

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APPENDIX I

FULL TEXT OF U.S. SECRETARY OF STATE CORDELL HULL'S PROTEST TO THE JAPANESE FOREIGN OFFICE CONCERNING THE OPEN DOOR IN CHINA

(Delivered through Ambassador Joseph Grew
in Tokyo on October 6, 1938)

THE Government of the United States has had frequent occasion to make representations to Your Excellency's Government in regard to action taken and policies carried out in China under Japanese authority to which the Government of the United States takes exception as being in its opinion in contravention of the principle and the condition of equality of opportunity or the "open door" in China.

In response to these representations and in other connections both public and private, the Japanese Government has given categorical assurances that equality of opportunity or the open door in China will be maintained.

The Government of the United States is constrained to observe, however, that notwithstanding the assurances of the Japanese Government in this regard violations by Japanese agencies of American rights and interests have persisted.

As having by way of illustration a bearing upon the situation to which the Government of the United States desires to invite the attention of the Japanese Government, it is recalled that at the time of the Japanese occupation of Manchuria the Japanese Government gave assurances that the open door in Manchuria would be maintained.

However, the principal economic activities in that area have

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been taken over by special companies which are controlled by Japanese nationals and which are established under special charters according them a preferred or exclusive position.

A large part of American enterprise which formerly operated in Manchuria has been forced to withdraw from that territory as a result of the preferences in force there. Arrangements between Japan and the régime now functioning in Manchuria allow the free movement of goods and funds between Manchuria and Japan while restricting rigidly the movement of goods and funds between Manchuria and countries other than Japan.

This channelling of the movement of goods is effected primarily by means of exchange control exercised under the authority of regulations issued under an enabling law which provide expressly that for the purpose of the law Japan shall not be considered a foreign country nor the Japanese yen a foreign currency.

In the opinion of my Government equality of opportunity or the open door has virtually ceased to exist in Manchuria notwithstanding the assurances of the Japanese Government that it would be maintained in that area.

The Government of the United States is now apprehensive lest there develop in other areas of China which have been occupied by Japanese military forces since the beginning of the present hostilities a situation similar in its adverse effect upon the competitive position of American business to that which now exists in Manchuria.

On April 12, 1938, I had occasion to invite the attention of Your Excellency's predecessor to reports which had reached the Government of the United States indicating that discrimination in favour of Japanese trade with North China was likely to be effected by means of exchange control and to ask for assurances that the Japanese Government would not support or countenance financial measures discriminatory against American enterprises.

Although the Minister for Foreign Affairs stated then that the Japanese Government would continue to support the

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principle of equal opportunity or the open door in China no specific reply has yet been made by the Japanese Government on the subject of these representations.

The Government of the United States now learns that the Japanese authorities at Tsingtao have in effect established an exchange control, that they are exercising a discriminatory authority to prohibit exports unless export bills are sold to the Yokohama Specie Bank, and that the Bank refuses to purchase export bills except at an arbitrary rate far lower than the open market rate prevailing at Tsingtao and Shanghai.

A somewhat similar situation apparently prevails at Chefoo.

Furthermore, reports continue to reach the American Government that a comprehensive system of exchange control will soon be established throughout North China. Control of foreign exchange transactions gives control of trade and commercial enterprise, and the exercise, either directly or indirectly, by the Japanese authorities of control of exchange in North China would place those authorities in position to greatly impede free competition between Japan and the United States in that area.

In such a situation imports from and exports to the United States as well as the choice of dealers in North China would be entirely subjected to the dispensation of the Japanese authorities.

Notwithstanding the short time that exchange control has been enforced in Tsingtao two cases of discrimination have already been brought to the attention of the Government of the United States.

In one instance an American dealer in a staple commodity has been unable to export to the United States because Japanese authorities there have insisted that his export bills be sold to a Japanese bank at a rate so far below the current rate of exchange of the Chinese currency in the open market that such transactions would involve a loss rather than a profit; but a Japanese competitor recently completed a large shipment invoiced at a price in United States dollars which was equivalent to the local market price calculated at the current open market rate.

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In the other instance an American firm was prevented from purchasing tobacco in Shantung unless it should purchase so-called Federal Reserve notes or yen currency with foreign exchange and at an arbitrary and low rate of exchange, conditions not imposed upon the company's Japanese or Chinese competitors.

The Government of the United States has already pointed out to the Japanese Government that alterations of the Chinese customs tariff by the régimes functioning in those portions of China occupied by Japanese armed forces and for which the Japanese Government has formally assured its support are arbitrary and illegal assumptions of authority for which the Japanese Government has an inescapable responsibility.

It is hardly necessary to add that there can be no equality of opportunity or open door in China so long as the ultimate authority to regulate, tax or prohibit trade is exercised, whether directly or indirectly, by the authorities of one "foreign" power in furtherance of the interests of that power.

It would appear to be self-evident that a fundamental prerequisite of a condition of equality of opportunity or open door in China is the absence in the economic life of that country of preferences or monopolistic rights operating directly or indirectly in favour of any foreign country or its nationals.

On July 4, I spoke to General Ugaki of the desire of the American Government that there be avoided such restrictions and obstacles to American trade and other enterprises as might result from the setting up of special companies and monopolies in China. The Minister was so good as to state that the open door in China would be maintained and that the Government of the United States might rest assured that the Japanese Government would fully respect the principle of equal opportunity.

Notwithstanding these assurances, the provisional régime in Peiping announced on July 30 the inauguration, as of the following day, of the China Telephone and Telegraph Company, the

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reported purpose of this organization being to control and to have exclusive operations of telephone and telegraph communications in North China.

There was organized in Shanghai on July 31 the Central China Tele-communication Company, and the special service section of the Japanese Army has informed foreign cable and telegraph companies that the company proposes to control all the tele-communications in Central China.

According to a semi-official Japanese press report, there was organized at Shanghai on July 28 the Shanghai Inland Navigation Steamship Company, to be controlled by Japanese, the reported object of which is to control water transportation in the Shanghai delta area.

According to information which has reached my Government a Japanese company has been organized to take over and operate the wharves at Tsingtao which have hitherto been publicly owned and operated. Should such a development occur all shipping of whatever nationality would become dependent upon a Japanese agency for allotments of space and stevedoring facilities.

The wool trade in North China is now reported to be a Japanese monopoly and a tobacco monopoly in that area is reported to be in process of formation.

Moreover, according to numerous reports which have been reaching my Government the Japanese Government is proceeding with the organization of two special promotion companies which it has chartered and which it will control with the object of investing in, unifying and regulating the administration of certain large sectors of economic enterprise in China.

The developments of which I have made mention are illustrative of the apparent trend of Japanese policy in China and indicate clearly that the Japanese authorities are seeking to establish in areas which have come under Japanese military occupation general preferences for, and superiority of, Japanese interests, an inevitable effect of which will be to frustrate the

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practical application of the principle of the open door and deprive American nationals of equal opportunity.

I desire also to call Your Excellency's attention to the fact that unwarranted restrictions placed by Japanese military authorities upon American nationals in China—notwithstanding the existence of American treaty rights in China and the repeated assurances of the Japanese Government that steps had been taken which would insure that American nationals, interests and properties would not be subject to unlawful interference by Japanese authorities—further subject American interests to continuing serious inconvenience and hardship.

Reference is made especially to the restrictions placed by the Japanese military upon American nationals who desire to re-enter and reoccupy properties from which they have been driven by the hostilities and of which the Japanese military have been or still are in occupation.

Mention may also be made of the Japanese censorship of and interference with American mail and telegrams at Shanghai and of restrictions upon freedom of trade, residence and travel by Americans, including the use of railways, shipping and other facilities.

While Japanese merchant vessels are carrying Japanese merchandise between Shanghai and Nanking those vessels decline to carry merchandise of other countries, and American and non-Japanese shipping is excluded from the lower Yangtze on the grounds of military necessity.

Applications by American nationals for passes which would allow them to return to certain areas in the lower Yangtze valley have been denied by Japanese authorities on the ground that peace and order have not been sufficiently restored, although many Japanese merchants and their families are known to be in those areas.

American nationals and their interests have suffered serious losses in the Far East arising from causes directly attributable to the present conflict between Japan and China, and even under

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the most favourable conditions an early rehabilitation of American enterprises in China and of American trade with China cannot be expected.

The American Government therefore finds it all the more difficult to reconcile itself to a situation in which American nationals must contend with continuing unwarranted interference with their rights at the hands of the Japanese authorities in China and with Japanese actions and policies which operate to deprive American trade and enterprises of equality of opportunity in China.

It is also pertinent to mention that in Japan, too, American trade and other interests are undergoing severe hardships as a result of the industrial, trade, exchange and other controls which the Japanese Government has imposed incident to its military operations in China.

While American interests in the Far East have been thus treated at the hands of the Japanese authorities, the Government of the United States has not sought either in its own territory or in the territory of third countries to establish or influence the establishment of embargoes, import prohibitions, exchange controls, preferential restrictions, monopolies or special companies designed to eliminate or having the effect of eliminating Japanese trade and enterprise.

In its treatment of Japanese nationals and their trade and enterprise, the American Government has been guided not only by the letter and spirit of the Japanese-American commercial treaty of 1911 but by those fundamental principles of international law and order which have formed the basis of its policy in regard to all peoples and their interests ; and Japanese commerce and enterprise have continued to enjoy in the United States equality of opportunity.

Your Excellency cannot fail to recognize the existence of a great and growing disparity between the treatment accorded American nationals and their trade and enterprise by Japanese authorities in China and Japan and the treatment accorded

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Japanese nationals and their trade and enterprise by the Government of the United States in areas within its jurisdiction.

In the light of the situation herein reviewed, the Government of the United States asks that the Japanese Government implement its assurances already given with regard to the maintenance of the open door and to non-interference with American rights by taking prompt and effective measures to cause :

1. The discontinuance of discriminatory exchange control and of other measures imposed in areas in China under Japanese control which operate either directly or indirectly to discriminate against American trade and enterprise ;
2. The discontinuance of any monopoly or of any preference which would deprive American nationals of the right of undertaking any legitimate trade or industry in China or of any arrangement which might purport to establish in favour of Japanese interests any general superiority of rights with regard to commercial or economic development in any region of China ; and
3. The discontinuance of interference by Japanese authorities in China with American property and other rights, including such forms of interference as censorship of American mail and telegrams and restrictions upon residence and travel by Americans and upon American trade and shipping.

The Government of the United States believes that in the interest of relations between the United States and Japan an early reply would be helpful.

APPENDIX II

JAPAN'S REPLY TO UNITED STATES (November 18, 1938)

I HAVE the honour to acknowledge receipt of your Excellency's note dated October 6, addressed to the Minister of Foreign Affairs, Prince Fumimaro Konoye, concerning the rights and interests of the United States in China.

In the note are cited various instances based on information in possession of the Government of the United States that Japanese authorities are subjecting American citizens in China to discriminatory treatment and are violating the rights and interests of the United States.

I now have the honour to state hereunder the opinions of the Japanese Government regarding these instances.

Firstly, the circumstances which led to adoption of the present measures concerning export exchange in Tsingtao and the present situation being, so far as the Japanese Government are aware, as set forth below, they consider that these measures cannot be construed as constituting any discrimination against American citizens.

A short time ago the Federal Reserve Bank of China was established in North China, whose notes, with an exchange value fixed at one shilling and two pence against one yuan, have been issued thus far to an amount of more than 100,000,000 yuan and are widely circulated. These bank notes being compulsory currency of the provisional government, maintenance of their value and smooth circulation is regarded as an indispensable basis for the conduct and development of economic activities

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in North China. Consequently the Japanese Government have taken a co-operative attitude ; and all Japanese subjects are using said notes and in their export trade exchanging them at a rate of one shilling and two pence.

On the other hand, the old fapi,¹ still circulating in these areas, has depreciated in exchange value to about eight pence to the yuan. Consequently, those who are engaged in export trade who use this currency are enjoying illegitimate profits as compared to those who use Federal Reserve notes and carry on legitimate transactions at the legitimate rate of exchange ; that is to say, Japanese subjects who use Federal Reserve notes have been suffering unreasonable disadvantages compared to persons who, while residing and carrying on their business in areas under the jurisdiction of the provisional government of North China, nevertheless use the old fapi exclusively.

Furthermore, the existence of the before-mentioned disparity in the exchange value between the new notes and the old fapi, which the Federal Reserve Bank has been exchanging at a rate not very much below par, is bound to exert an unfavourable effect upon the exchange value of the Japanese yen.

The Japanese Government feel it is incumbent on them not to remain indifferent to such a situation.

Export exchange measures as adopted at Tsingtao are calculated to place users of the old Chinese currency, who have been obtaining unfair profits, on an equal footing with those using Federal Reserve notes.

Inasmuch as application of the measures makes no differentiation according to nationality, they cannot be considered discriminatory measures. As a matter of fact, it is through these measures that those users of Federal Reserve notes who had, in a sense, been discriminated against have been placed on equal footing with others and thus enabled to compete on a fair basis.

Secondly, in North and Central China, new Chinese régimes some time ago effected revisions of the customs tariff in an

¹ "Fapi" means Chinese legal tender.

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attempt to secure rational modification of the former tariff enforced by the Kuomintang Government, which was unduly high and ill-calculated to promote economic recovery and the general welfare of the Chinese people.

However, the schedule actually approved for the time being is the one approved by the powers in 1931, so that no complaint has been heard from foreign residents of any nationality on the spot. The Japanese Government are, of course, in favour of the purpose of said revision, believing it will serve to promote effectively the trade of all countries with China.

Thirdly, as for organization of certain promotion companies in China, restoration and development of China's economic, financial and industrial life after the present affair is a matter of urgent necessity for the welfare of the Chinese.

Moreover, the Japanese Government are deeply solicitous for the early inauguration and progress of work having for its object this restoration development, for the sake of realization of a new order in East Asia, and are doing all in their power in that direction. The North China Development Company and Central China Development Company were established with a view to giving China necessary assistance toward said restoration and also with the aim of contributing towards the development of China's natural resources. It is far from the thoughts of the Japanese Government to impair the rights and interests of American citizens in China or discriminate against their enterprises.

The Japanese Government, therefore, do not oppose, but heartily welcome, participation of third powers on the basis of the new situation which has arisen.

Tele-communication companies in North and Central China and the Inland Navigation Steamship Company at Shanghai and the Wharfage Company at Tsingtao also have been established to meet the imperative need of an early restoration of communications, transportation and harbour facilities.

With the exception of the tele-communication enterprise

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which, because of its obvious relation to the maintenance of peace and order and to national defence, as well as because of its public character, has been placed in the hands of special companies, all these enterprises are turned over to concerns that are ordinary Chinese or Japanese juridical persons, without any intention of allowing them to reap monopolistic profits by discriminating against America or any other Power.

As regards the wool trade, while control of purchasing agencies was enforced for a time in the Mongolian region, it since has been discontinued.

There is no plan at present of any sort for establishing a tobacco monopoly.

Fourthly, concerning the return of American citizens to occupied areas, Your Excellency is aware that in North China there is no restriction, excepting very special cases where the personal safety of those who return would be endangered, while in the Yangtze Valley large numbers of Americans have already returned. The reason that permission to return has not yet been made general is, as has repeatedly been communicated to Your Excellency, due to danger that persists because of imperfect restoration of order and also to the impossibility of admitting nationals of a third power on account of strategic necessities such as the preservation of military secrets.

Again, the various restrictions enforced in the occupied areas concerning residence, travel, enterprise and trade of American citizens constitute the minimum regulations consistent with military necessities and local conditions of peace and order. It is the intention of the Japanese Government to restore the situation to normal as soon as circumstances permit.

The Japanese Government are surprised at the allegation that there exists a fundamental difference between the treatment accorded Japanese in America and the treatment accorded Americans in Japan.

While it is true that in these days of emergency, Americans residing in this country are subject to various economic restric-

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tions, yet these are, needless to say, restrictions imposed not upon Americans alone but also on all foreigners of all nationalities as well as upon subjects of Japan. I beg to reserve for another occasion a statement of views of the Japanese Government concerning the treatment of Japanese subjects in American territory, referred to in Your Excellency's note.

As has been explained above, the Japanese Government, with every intention of fully respecting American rights and interests in China, have been doing all that could possibly be done in that behalf.

However, since there are at present in China military operations on a scale unprecedented in our history, it may well be recognized by the Government of the United States that it is unavoidable that these military operations should occasionally present obstacles to giving full effect to our intention of respecting the rights and interests of American citizens.

Japan at present is devoting her energy to the establishment of a new order based on genuine international justice throughout East Asia, the attainment of which end is not only an indispensable condition for the very existence of Japan but also constitutes the very foundation of enduring peace and stability in East Asia.

It is the firm conviction of the Japanese Government that in the face of the new situation fast developing in East Asia any attempt to apply to the conditions of today and tomorrow inapplicable ideas and principles of the past would neither contribute toward the establishment of real peace in East Asia nor solve immediate issues.

However, as long as these points are understood, Japan has not the slightest inclination to oppose participation of the United States and other powers in the great work of reconstruction in East Asia along lines of industry and trade ; and I believe the new régimes now being formed in China are prepared to welcome such foreign participation.

APPENDIX III

TEXT OF THE NOTE PRESENTED TO JAPAN'S FOREIGN MINISTER BY SIR ROBERT CRAIGIE, BRITISH AMBASSADOR IN TOKYO

(January 15, 1939)

I AM instructed by His Majesty's Foreign Secretary to inform Your Excellency of the uncertainty and the grave anxiety in which His Majesty's Government have been left by a study of Japan's new policy in Far Eastern affairs as set out in recent statements by the late Prime Minister (Prince Konoye) and other Japanese statesmen.

I am to refer more particularly to Prince Konoye's statements of November 3 and December 22 and to the communication made by Your Excellency to foreign Press correspondents on December 19. This uncertainty has not been removed by conversations on this subject which I have had with Your Excellency from time to time.

From these pronouncements and from other official information issued in Japan, His Majesty's Government infer that it is the intention of the Japanese Government to establish a tripartite combination or bloc composed of Japan, China and Manchuria, in which the supreme authority will be vested in Japan and subordinate rôles will be allotted to China and Manchuria.

So far as China is concerned, it is understood that the Japanese Government is to exercise control, at least for some time, through the Asia Development Council in Tokyo, which is charged with the formation and execution of policy connected with political, economic and cultural affairs in China.

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Your Excellency's own communication to the Press indicates that the tripartite combination is to form a single economic unit, and the economic activities of other Powers are to be subjected to restrictions dictated by the requirements of national defence and the economic security of the proposed bloc.

According to Prince Konoye, the hostilities in China are to continue until the present Chinese Government have been crushed or will consent to enter the proposed combination on Japanese terms.

China, he said, will be required to conclude with Japan an anti-Comintern agreement, and Japanese troops are to be stationed at specified points in Chinese territory for an indefinite period, presumably to ensure that the Japanese conditions for the suspension of hostilities are observed.

Moreover, His Excellency stated that the Inner Mongolian region must be designated as a special anti-Communist area. It is not clear what is meant by this, but in the absence of fuller information it can only be assumed that Inner Mongolia is to be subjected to an even greater degree of Japanese military control than other parts of China.

His Majesty's Government are at a loss to understand how Prince Konoye's assurance that Japan seeks no territory, and respects the sovereignty of China, can be reconciled with the declared intention of the Japanese Government to compel the Chinese people by force of arms to accept conditions involving the surrender of their political, economic and cultural life to Japanese control, the indefinite maintenance in China of considerable Japanese garrisons, and the virtual detachment from China of the territory of Inner Mongolia.

For their part, His Majesty's Government desire to make it clear that they are not prepared to accept or to recognize changes of the nature indicated, which are brought about by force.

They intend to adhere to the principles of the Nine-Power Treaty, and cannot agree to the unilateral modification of its terms. They would point out that, until the outbreak of the

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present hostilities, the beneficial effects which the Treaty was expected to produce were steadily being realized.

The Chinese people were maintaining and developing for themselves an effective and stable Government, and the principle of equal opportunity for the commerce and industry of all nations was bringing prosperity to China and to her international trade, including that with Japan.

His Majesty's Government, therefore, cannot agree, as suggested in Japan, that the Treaty is obsolete or that its provisions no longer meet the situation, except in so far as the situation has been altered by Japan in contravention of its terms.

While, however, His Majesty's Government maintain that the modification cannot be effected unilaterally and must be by negotiation between all the signatories, they do not contend that treaties are eternal.

If, therefore, the Japanese Government have any constructive suggestions to make regarding the modification of any of the multilateral agreements relating to China, His Majesty's Government for their part will be ready to consider them. In the meantime, His Majesty's Government reserve all their rights under the existing treaties.

I am further instructed to refer to that portion of Prince Konoye's statement of December 22 which states that Japan is prepared to give consideration to the abolition of extra-territoriality and the rendition of foreign concessions and settlements in China.

This inducement to China to accept Japan's demands would appear to entail but little sacrifice on the part of the Japanese, for if they succeed in their plans for the control of the country they will have no further need for extra-territoriality or concessions.

On the other hand, His Majesty's Government would recall that they undertook and nearly completed negotiations with the Chinese Government in 1931 for the abrogation of British extra-territorial rights.

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The negotiations were suspended by the Chinese Government in consequence of the disturbed conditions following the seizure of Manchuria by Japanese forces in that year, but His Majesty's Government have always been ready to resume the negotiations at a suitable time and are prepared to discuss this and other similar questions with a fully independent Chinese Government when peace has been restored.

In conclusion, I am to state that if, as is possible, His Majesty's Government have in any way misinterpreted the intentions of the Japanese Government, they feel that it is because of the ambiguity with which those intentions have so far been expressed and they would welcome a more precise and detailed exposition of the Japanese conditions for terminating the hostilities and of the Japanese policy towards China.

APPENDIX IV

FULL TEXT OF THE UNITED STATES' REBUTTAL TO JAPAN ON THE OPEN DOOR POLICY

(December 31, 1938)

THE Government of the United States has received and has given full consideration to the reply of the Japanese Government of November 18 to this Government's note of October 6 on the subject of American rights and interests in China.

In the light of facts and experience the Government of the United States is impelled to reaffirm its previously expressed opinion that imposition of restrictions upon the movements and activities of American nationals who are engaged in philanthropic, educational and commercial endeavours in China has placed and will, if continued, increasingly place Japanese interests in a preferred position and is, therefore, unquestionably discriminatory in its effect against legitimate American interests.

Further, with reference to such matters as exchange control, compulsory currency circulation, tariff revision and monopolistic promotion in certain areas of China, the plans and practices of the Japanese authorities imply an assumption on the part of those authorities that the Japanese Government or the régimes established and maintained in China by Japanese armed forces are entitled to act in China in a capacity such as flows from rights of sovereignty and, further, in so acting to disregard and even to declare non-existent or abrogated the established rights and interests of other countries, including the United States.

The Government of the United States expresses its conviction

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that the restrictions and measures under reference not only are unjust and unwarranted, but are counter to the provisions of several binding international agreements, voluntarily entered into, to which both Japan and the United States, and in some cases other countries, are parties.

In the concluding portion of its note under reference, the Japanese Government states that it is firmly convinced that "in the face of the new situation, fast developing in East Asia, any attempt to apply to the conditions of today and tomorrow inapplicable ideas and principles of the past neither would contribute toward the establishment of the real peace in East Asia nor solve the immediate issues", and that "as long as these points are understood, Japan has not the slightest inclination to oppose the participation of the United States and other Powers in the great work of reconstructing East Asia along all lines of industry and trade".

The Government of the United States in its note of October 6 requested, in view of the oft-reiterated assurances proffered by the Government of Japan of its intention to observe the principle of equality of opportunity in its relations with China, and in view of Japan's treaty obligations so to do, that the Government of Japan abide by these obligations and carry out these assurances in practice. The Japanese Government in its reply appears to affirm that it is its intention to make its observance of that principle conditional upon an understanding by the American Government and by other Governments of a "new situation" and a "new order" in the Far East as is envisaged and fostered by Japanese authorities.

Treaties which bear upon the situation in the Far East have within them provisions relating to a number of subjects. In the making of those treaties there was a process among the parties to them of give-and-take. Toward making possible and carrying out of some of their provisions, others among their provisions were formulated and agreed upon; toward gaining for itself the advantage of security in regard to certain matters, each of

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the parties committed itself to pledges of self-denial in regard to certain other matters.

The various provisions agreed upon may be said to have constituted collectively an arrangement for safeguarding, for the benefit of all, the correlated principles on the one hand of national integrity, and on the other hand of equality of economic opportunity. Experience has shown that impairment of the former of these principles is followed almost invariably by disregard of the latter.

Whenever any Government begins to exercise political authority in areas beyond the limits of its lawful jurisdiction there develops inevitably a situation in which the nationals of that Government demand and are accorded, at the hands of their Government, preferred treatment, whereupon equality of opportunity ceases to exist and discriminatory practices, productive of friction, prevail.

The admonition that enjoyment by the nationals of the United States of non-discriminatory treatment in China—a general and well-established right—is henceforth to be contingent upon an admission by the Government of the United States of the validity of the conception of the Japanese authorities of a “new situation” and a “new order” in East Asia, is, in the opinion of this Government, highly paradoxical.

This country's adherence to and its advocacy of the principle of equality of opportunity do not flow solely from a desire to obtain the commercial benefits which naturally result from the carrying out of that principle. They flow from a firm conviction that observance of that principle leads to economic and political stability, which are conducive both to the internal well-being of nations and to mutually beneficial and peaceful relationships between and among nations ; from a firm conviction that failure to observe that principle breeds international friction and ill-will, with consequences injurious to all countries, including in particular those countries which fail to observe it ; and from an equally firm conviction that observance of that principle

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promotes the opening of trade channels thereby making available the markets, the raw materials and the manufactured products of the community of nations on a mutually and reciprocally beneficial basis.

The principle of equality of economic opportunity is, moreover, one to which over a long period and on many occasions the Japanese Government has given definite approval. It is one to the observance of which the Japanese Government has committed itself in various international agreements and understandings. It is one upon observance of which by other nations the Japanese Government has of its own accord and upon its own initiative frequently insisted. It is one to which the Japanese Government has repeatedly during recent months declared itself committed.

The people and the Government of the United States could not assent to the establishment, at the instance of and for the special purpose of any third country, of a régime which would arbitrarily deprive them of the long-established rights of equal opportunity and fair treatment which are legally and justly theirs along with those of other nations.

Fundamental principles, such as the principle of equality of opportunity, which have long been regarded as inherently wise and just, which have been widely adopted and adhered to, and which are general in their application, are not subject to nullification by a unilateral affirmation.

With regard to the implication in the Japanese Government's note that the "conditions of today and tomorrow" in the Far East call for a revision of the ideas and principles of the past, this Government desires to recall to the Japanese Government its position on the subject of revision of agreements.

This Government had occasion in the course of a communication delivered to the Japanese Government on April 29, 1934, to express its opinion that treaties can lawfully be modified or be terminated, but only by processes prescribed or recognized or agreed upon by the parties to them.

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In the same communication this Government also said, "In the opinion of the American people and the American Government no nation can, without the assent of the other nations concerned, rightfully endeavour to make conclusive its will in situations where there are involved the rights, the obligations and the legitimate interests of other sovereign States".

In an official and public statement on July 16, 1937, the Secretary of State of the United States declared that this Government advocated "adjustment of problems in international relations by processes of peaceful negotiations and agreement".

At various times during recent decades, various Powers, among which have been Japan and the United States, have had occasion to communicate and to confer with regard to situations and problems in the Far East. In the conducting of correspondence and of conferences relating to these matters the parties involved have invariably taken into consideration past and present facts, and they have not failed to perceive the possibility and the desirability of changes in the situation.

In the making of treaties they have drawn up and have agreed on provisions intended to facilitate advantageous developments and at the same time to deviate and avert the arising of friction between and among the various Powers which, having interests in the region or regions under reference, were and would be concerned.

In the light of these facts, and with reference especially to the purpose and the character of the treaty provisions from time to time solemnly agreed upon for the very definite purposes indicated, the Government of the United States deprecates the fact that one of the parties to these agreements has chosen to embark—as indicated both by action of its agents and by official statements of its authorities—upon a course directed toward the arbitrary creation by that Power by methods of its own selection, re-established rights of other Powers concerned, of a "new order" in the Far East.

Whatever may be the changes in the Far East, and whatever

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may be the situation now, these matters are of no less interest and concern to the American Government than have been the situations which have prevailed there in the past, and such changes as may henceforth take place there, changes which may enter into the producing of a "new situation" and a "new order", are and will be of like concern to this Government.

This Government is well aware that many of the changes have been brought about by action of Japan. This Government does not admit, however, that there is need or warrant for any one Power to take upon itself to prescribe what shall be the terms and conditions of a "new order" in areas not under its sovereignty and to constitute itself the repository of authority and the agent of destiny in regard thereto.

It is known to all the world that various of the parties to treaties concluded for the purpose of regulating contacts in the Far East and avoiding friction therein and therefrom—which treaties contained, for those purposes, various restrictive provisions—have from time to time and by processes of negotiation and agreement contributed in the light of changed situations toward the removal of restrictions and toward the bringing about of further developments which would warrant, in the light of further changes in the situation, further removals of restrictions.

By such methods and processes early restrictions upon the tariff autonomy of all countries in the Far East were removed. By such methods and processes the rights of extra-territorial jurisdiction once enjoyed by Occidental countries in relations with countries in the Far East have been given up in relations with all of those countries except China, and in the years immediately preceding and including the year 1931, countries which still possess those rights in China, including the United States, were actively engaged in negotiations—far advanced—toward surrender of those rights.

All discerning and impartial observers have realized that the United States and others of the "Treaty Powers" have not

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during recent decades clung tenaciously to their so-called "special" rights and privileges in countries of the Far East, but, on the contrary, have steadily encouraged the development in those countries of institutions and practices in the presence of which such rights and privileges may safely and readily be given up ; and all observers have seen those rights and privileges gradually being surrendered voluntarily, through agreement, by the Powers which have possessed them.

On one point only has the Government of the United States, along with several other Governments, insisted—namely, that new situations must have developed to a point warranting the removal of "special" safeguarding restrictions and that the removals be effected by orderly processes.

The Government of the United States has at all times regarded agreements as susceptible of alteration, but it has always insisted that alterations can rightfully be made only by orderly processes of negotiation and agreement among the parties thereto.

The Japanese Government has upon numerous occasions expressed itself as holding similar views.

The United States has in its international relations rights and obligations which derive from international law and rights and obligations which rest upon treaty provisions. Of those which rest on treaty provisions, its rights and obligations in and with regard to China rest in part upon provisions in treaties between the United States and China, and in part on provisions in treaties between the United States and several other Powers, including both China and Japan.

These treaties were concluded in good faith for the purpose of safeguarding and promoting the interests not of one only, but of all of their signatories. The people and the Government of the United States cannot assent to the abrogation of any of this country's rights or obligations by the arbitrary action of agents or authorities of any other country.

The Government of the United States has, however, always been prepared, and is now, to give due and ample consideration

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to any proposals based on justice and reason which envisage the resolving of problems in a manner duly considerate of the rights and obligations of all parties directly concerned by processes of free negotiation and new commitment by and among all of the parties so concerned. There has been, and there continues to be, opportunity for the Japanese Government to put forward such proposals.

This Government has been, and it continues to be, willing to discuss such proposals, if and when put forward, with representatives of the other Powers, including Japan and China, whose rights and interests are involved, at whatever time and whatever may be commonly agreed upon.

Meanwhile, this Government reserves all rights of the United States as they exist and does not give assent to any impairment of any of those rights.

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